



U.S. Commodity Futures Trading Commission

James E. Newsome
Chairman

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February 3, 2003

The Honorable Ted Stevens
Chairman
Committee on Appropriations
United States Senate
S-128 Capitol Building
Washington, D.C. 20510-6025

The Honorable C. W. Bill Young
Chairman
Committee on Appropriations
United States House of Representatives
H-218 Capitol Building
Washington, D.C. 20515-6015

Dear Chairman Stevens and Chairman Young:

I am pleased to transmit to you the FY 2004 Budget of the Commodity Futures Trading Commission. The budget reflects an appropriation request for \$88,435,000 and 489 staff-years, an increase of \$8,550,000 and a decrease of 52 staff-years over the FY 2003 President's Budget.

Copies of this submission are also being transmitted to the Senate Committee on Agriculture, Nutrition, and Forestry and the House Committee on Agriculture. If I can provide you with any further information, please do not hesitate to call.

Sincerely yours,

James E. Newsome
Chairman

Enclosure

cc:

The Honorable Thad Cochran
Chairman
Committee on Agriculture,
Nutrition, and Forestry
U.S. Senate
SR - 328A Russell Senate Office Building
Washington, D. C. 20510-6000

The Honorable Robert W. "Bob" Goodlatte
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D. C. 20515-6001

THE FY 2004 PRESIDENT'S BUDGET

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A Note on the Format:

This document is comprised of three sections: Part I is the FY 2004 President's Budget, which contains the traditional program-based budget structure in which the agency's FY 2004 President's Budget is summarized and justified, pages 1-112; Part II is the FY 2004 Annual Performance Plan, which incorporates the goal-based approach of the CFTC Strategic Plan and in which funds are distributed by Goal and Outcome Objective, see pages 113-170; Part III is the FY 2002 Annual Performance Report, which summarizes the Commission's performance as compared to the annual goals set forth in the CFTC Strategic Plan, see pages 171-228.

Parts I and II contain a cross-cutting analysis. That is, the program-based analysis of the President's Budget is augmented by a programmatic distribution of resources by Agency Goal. Conversely, the goal-based analysis of the Annual Performance Plan also disaggregates resources by program. Our intent is to engender greater understanding among the public, the Congress, the Administration, market users, and the many other persons and entities with which we work of how the Commission resources contribute to the accomplishment of the agency's mission.

Questions or comments about this document can be directed to: Emory H. Beville, Acting Director, Office of Financial Management at 202-418-5187, via e-mail at ebevill@CFTC.gov or Deidre King, Budget Publication Specialist at 202-418-5189, via e-mail at d_king@CFTC.gov.

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EXECUTIVE SUMMARY

Introduction to the Commission

Congress created the Commodity Futures Trading Commission (the CFTC or the Commission) in 1974 as an independent agency with the mandate to regulate commodity futures and option markets in the United States. The Commission's mandate was renewed and/or expanded in 1978, 1982, 1986, 1992, and 1995. In December 2000, the Commission was reauthorized by Congress and the President through fiscal year (FY) 2005 with the passage of the Commodity Futures Modernization Act of 2000 (CFMA).

The CFMA transformed the Commission from a front-line regulatory agency to an oversight regulator. Although the Commission's approach to regulation has consequently changed, its mission remains the same. The CFTC continues to be responsible for fostering the economic utility of futures markets by encouraging their competitiveness and efficiency, ensuring their integrity, and protecting market participants against manipulation, abusive trading practices, and fraud. Through effective oversight regulation, the CFTC enables the commodity futures markets better to serve their vital function in the Nation's economy—providing a mechanism for price discovery and a means of offsetting price risks.

The President's Budget for FY 2004 is \$88.4 million with 489 full-time equivalents (FTEs). This is an \$8.5 million increase from the FY 2003 President's Budget of \$79.9 million.

Compared to the FY 2003 President's Budget, key changes in the FY 2004 President's Budget are¹:

- \$-6.6 million to reflect a reduction in staff of 52 FTEs;
- \$+3.8 million to provide for mandatory compensation and benefits increases;
- \$+8.2 million to provide for pay parity with other FIRREA agencies; and
- \$+3.1 million to provide for increases in costs for lease of office space, information technology modernization, and all other services.

¹ Due to the absence of an FY 2003 appropriation, the FY 2003 President's Budget serves as the basis for formulating the FY 2004 President's Budget. FIRREA is an acronym for the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

The FY 2004 President's Budget

Breakout of \$88.4 Million Budget Estimate by Program

... the \$88.4 million budget estimate is allocated among six programs: Enforcement; Clearing & Intermediary Oversight; Market Oversight; Chief Economist; Proceedings; and General Counsel. There is one support program: Executive Direction² ...

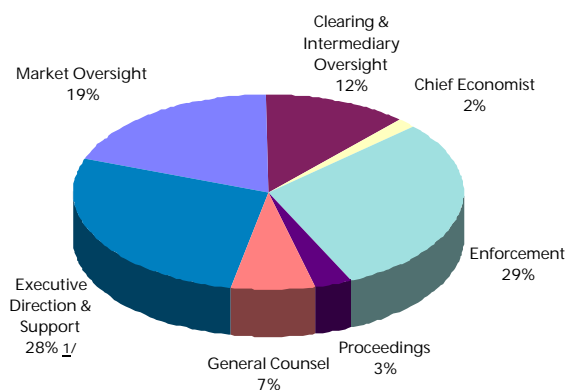


Figure 1: \$88.4 Million Budget Estimate by Program

	FY 2002		FY 2003		FY 2004 Current Svcs.		FY 2004 Request	
	FTE	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE	\$ (000)
Market Oversight	105	\$15,129	114	\$15,896	114	\$19,778	100	\$16,922
Clearing & Intermediary Oversight	65	\$9,376	68	\$9,805	68	\$12,184	60	\$10,672
Chief Economist	7	\$1,010	9	\$1,394	9	\$1,724	8	\$1,415
Enforcement	144	\$21,406	148	\$22,269	148	\$27,495	143	\$26,341
Proceedings	15	\$2,245	15	\$2,265	15	\$2,792	14	\$2,585
General Counsel	33	\$4,765	30	\$4,991	30	\$6,179	30	\$6,121
Exec. Direction & Support	145	\$21,408	157	\$23,265	157	\$28,651	134	\$24,379
Total	514	\$75,339	541	\$79,885	541	\$98,803	489	\$88,435

Table 1: Budget Estimate by Program

² Includes information technology in support of all programs.

Breakout of \$88.4 Million Budget Estimate by Object Class

Approximately 71 percent of the CFTC's budget covers staff salaries and benefits.

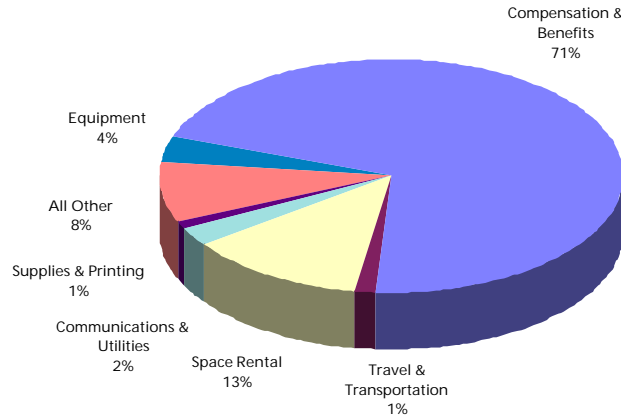


Figure 2: \$88.4 Million Budget Estimate by Object Class

	FY 2002	FY 2003	FY 2004
	<u>(\$000)</u>	<u>(\$000)</u>	<u>(\$000)</u>
11.1 Full-Time Perm. Compensation	\$36,000	\$41,723	\$44,570
11.3 Other Than Perm. Compensation	2,500	2,500	2,500
11.5 Other Personnel Compensation	982	958	958
11.8 Special Pers. Serv. Payments	<u>203</u>	<u>170</u>	<u>170</u>
11.9 Subtotal, Personnel Comp.	39,685	45,351	48,198
12.1 Personnel Benefits: Civilian	10,763	12,184	14,741
13.0 Benefits for Former Personnel	66	-	-
21.0 Travel & Transportation of Persons	1,056	1,021	1,021
22.0 Transportation of Things	10	10	10
23.2 Rental Payments to Others	8,213	9,852	11,189
23.3 Comm., Utilities & Miscellaneous	1,874	2,166	2,062
24.0 Printing and Reproduction	318	361	361
25.0 Other Services	5,451	5,854	6,735
26.0 Supplies and Materials	745	830	830
31.0 Equipment	2,471	2,256	3,288
42.0 Claims/Indemnities	<u>31</u>	<u>-</u>	<u>-</u>
99.0 Subtotal, Direct Obligations	70,683	79,885	88,435
99.0 Reimbursable	<u>114</u>	<u>100</u>	<u>100</u>
99.0 Total Obligations	\$70,797	\$79,985	\$88,535

Table 2: Budget Estimate by Object Class

FY 2004 President's Budget

Crosswalk from FY 2003 to FY 2004

	FY 2003 Estimate	FY 2004 Request	Change
Budget Authority (\$000)	\$79,885	\$88,435	\$8,550
Full-Time Equivalents (FTEs)	541	489	-52

<u>Explanation of Change</u>	FTEs	Dollars (\$000)
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Increases: (Adjustments to FY 2003 Base)

To provide for the following changes in personnel compensation (excluding benefits):

-- Estimated Jan. 2003 3.1% pay increase (annualization of)	334
-- Estimated January 2004 2.4% pay increase	806
--Within-grade increases	329
--Elimination of retention allowance in lieu of pay parity with FIRREA agencies	(1,497)

To provide for increased costs of personnel benefits	3,872
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Pay parity with FIRREA agencies	8,179 ³
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To provide salaries & expenses for 52 fewer FTEs (from 541 to 489 FTEs)	-52	(6,618)
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To provide for the following changes in non-personnel costs:	3,145
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--Space Rental (\$1,337)
--Communications/Utilities (-\$104)
--All Services (\$880)
--Equipment (\$1,032)

Total Increases	-52	\$8,550
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Table 3: Crosswalk from FY 2003 to FY 2004

³ This figure represents a very low-side estimate of the cost of providing pay parity with FIRREA agencies. The Commission is presently developing a proposed pay parity plan, which includes a comprehensive comparison of CFTC pay to other FIRREA agencies. The plan is scheduled for completion in April 2003, at which time a more precise cost estimate will be available.

CFTC Mission Statement and Agency Goals

<p align="center">Mission Statement</p> <p><i>The mission of the CFTC is to protect market users and the public from fraud, manipulation, and abusive practices related to the sale of commodity futures and options, and to foster open, competitive and financially sound commodity futures and option markets.</i></p>	
<p>Goal One</p> <p><i>Protect the economic functions of the commodity futures and option markets.</i></p>	
Outcome Objectives	
1.	Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.
2.	Oversee markets that can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.
<p>Goal Two</p> <p><i>Protect market users and the public.</i></p>	
Outcome Objectives	
1.	Promote compliance with, and deter violations of, Federal commodities laws.
2.	Require commodities professionals to meet high standards.
3.	Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Commodity Exchange Act.
<p>Goal Three</p> <p><i>Foster open, competitive and financially sound markets.</i></p>	
Outcome Objectives	
1.	Ensure sound financial practices of clearing organizations and firms holding customer funds.
2.	Promote and enhance effective self-regulation of the commodity futures and option markets.
3.	Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.
4.	Promote markets free of trade practice abuses.

\$88.4 Million Budget Estimate by Agency Goal

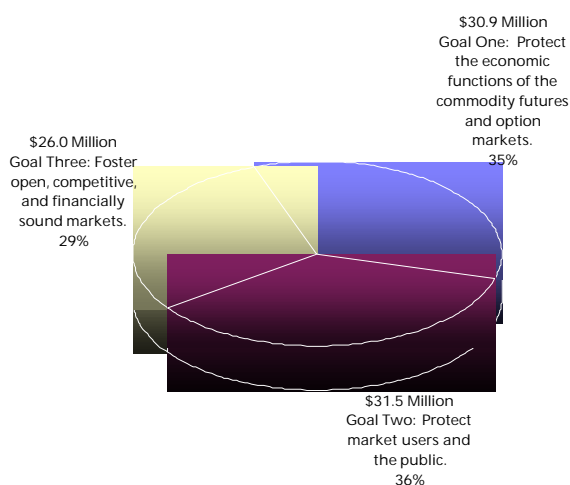


Figure 3: Budget Estimate by Agency Goal

Significant Developments in the Past Year

Progress in Implementing the CFMA

FY 2001-FY 2002. Much of the Commission's business today flows directly from changes that occurred in FY 2000. FY 2000 witnessed a series of events, often on parallel legislative and regulatory tracks, that resulted in substantial revisions to the Commodity Exchange Act (CEA) and the transformation of the Commission from a "front-line" to an oversight regulatory agency.

The highlight of that period occurred in December 2000 when Congress passed, and President Clinton signed, the CFMA. The CFMA: 1) repealed the ban on single-stock futures and directed the Commission and the Securities and Exchange Commission (SEC) to implement a joint regulatory framework for futures on individual securities and narrow-based stock indices (security futures products or SFPs); 2) codified the principal provisions of prior regulatory reforms adopted by the Commission; 3) brought legal certainty to trading in over-the-counter (OTC) derivatives; 4) clarified the CFTC's jurisdiction over off-exchange trading in foreign currency (or forex) futures and options; and 5) gave the Commission explicit authority to regulate derivatives clearing organizations (DCOs). The CFMA also reauthorized the Commission through the end of FY 2005.

Following passage of that landmark legislation, Commission staff began working to implement the CFMA by promulgating rules and conducting various studies (both independently and in coordination with other members of the President's Working Group on Financial Markets (PWG)) mandated by the CFMA, and the Commission worked closely with the SEC and the Board of Governors of the Federal Reserve System (FRB) to open the market to SFPs. During FY 2001 and 2002, the Commission proceeded to implement the requirements of the CFMA with proposed and final rules published in the *Federal Register*. The rules are available on the Commission Web site:

<<http://www.cftc.gov/opa/opapress01.htm>>.

Below is brief summary of a number of rulemakings and other regulatory initiatives proposed or implemented thus far:

- Implementation of a New Regulatory Framework. In March 2001, the Commission proposed rules to implement the new regulatory framework mandated by the CFMA, consisting of a three-tiered structure of designated contract markets, registered derivatives transaction execution facilities (DTEFs), and exempt markets. Final rules were adopted on July 30, 2001.
- Derivatives Clearing Organizations. The CFMA provides authority for the Commission to regulate certain DCOs. Since May 2001, the Commission has proposed and finalized rules to specify the form and provide guidance for the content of applications for DCO registration, as well as the procedures for processing DCO registration applications. The rules assist the Commission in overseeing the operations and activities of DCOs and in enforcing compliance by DCOs with core principles and other provisions of the CEA and Commission regulations. In June 2002, the Commission proposed rule changes to clarify that when a registered DCO that has become dormant determines to accept a product for clearing, the DCO must demonstrate that it continues to satisfy the criteria for registration.
- Notice-Designation and Exemption Procedures for Contract Markets in SFPs. The Commission proposed in May 2001 and adopted as final in August

2001, rules to permit national securities exchanges, national securities associations, and alternative trading systems to be designated contract markets in SFPs. The rules also established procedures for these entities to apply for exemptions from unnecessary or duplicative regulations upon the filing of specified notice with the Commission.

- Notice Registration of Securities Broker-Dealers to Trade SFPs. As required by the CFMA, in May 2001, the Commission proposed rules providing for notice registration of SEC-registered securities broker-dealers as futures commission merchants (FCMs), or introducing brokers (IBs), for the limited purpose of conducting transactions in SFPs. The rules were finalized in August 2001.
- Requests for Exemptive Orders by Securities Broker-Dealers Trading SFPs. The CFMA directs the Commission to establish procedures whereby securities broker-dealers who are either registered as FCMs or IBs for the limited purpose of trading SFPs, or who are exempt from floor broker (FB) or floor trader (FT) registration by virtue of restricting their commodity interest trading to SFPs, may apply for and be granted orders providing exemption from provisions of the CEA and Commission rules, in addition to the provisions from which such broker-dealers are specifically exempted by the terms of the CFMA. In April 2001, the Commission proposed, and in August 2001 adopted as final, rules establishing such procedures.
- Listing Standards³⁴Cash Settlement and Trading Halt Procedures for SFPs. As necessitated by the CFMA, the Commission developed rules on listing standards and conditions for trading SFPs, which were finalized in October 2001. The Commission also adopted, with the SEC, rules on cash settlement and regulatory trading halt requirements for SFPs, which were finalized in May 2002.
- Margin for SFPs. The CFMA authorizes the FRB to prescribe rules governing margin for SFPs to: 1) preserve the financial integrity of markets trading these products; 2) prevent systemic risk; and 3) set margin requirements comparable to those for security options. The FRB, in March 2001, delegated its authority over margin for SFPs jointly to the Commission and the SEC in accordance with the CFMA. In September 2001, the two Commissions jointly proposed, and in August 2002 adopted as final, rules to address these issues.
- Treatment of Customer Funds and Financial Responsibility Rules Concerning SFPs. The CFMA directs the Commission and the SEC to issue rules to avoid duplicative or conflicting requirements for firms dually and fully registered as FCMs and securities broker-dealers with respect to their handling of transactions involving SFPs in the areas of treatment of customer funds, minimum financial and related reporting requirements, and record-keeping. The CFTC and the SEC jointly proposed rules to address these issues in accordance with CFMA requirements in September 2001 and adopted final rules in September 2002.
- Dual Trading. As required by the CFMA, the Commission proposed rules to restrict dual trading by FBs in SFPs in July 2001. The proposed rules were adopted in March 2002. The dual trading restriction affects FBs who trade SFPs through open outcry on the trading floor of a designated contract market or registered DTEF. The proposed rules provide for certain exceptions to the restriction, including provisions for the correction of errors, customer consent, spread transactions, and market emergencies. The rules also provide an exception based on unique or special characteristics of an agreement, contract, or transaction, or of the designated contract market or registered DTEF.

- *Rules Permitting Certain Customers to “Opt-Out” of Customer Funds Segregation Requirements.* In April 2001, the Commission adopted rules permitting certain customers to opt-out of having their funds segregated by an FCM for trades on or through a DTEF. As amended by the CFMA, the CEA provides that a registered DTEF may authorize an FCM to offer its customers who are eligible contract participants (generally, institutional customers) the right not to have the customers' funds that are carried by the FCM, for purposes of trading on a registered DTEF, separately accounted for and segregated. The new rules specify the conditions under which such an opt-out may be accomplished.
- *Privacy Disclosures and Restrictions on Use of Non-Public Customer Information.* As required by the CFMA, in April 2001, the Commission adopted rules implementing notification requirements and restrictions on the ability of financial institutions subject to its jurisdiction to disclose nonpublic personal information about consumers and customers to nonaffiliated third parties. Under the CFMA and Title V of the Gramm-Leach-Bliley Act (GLBA), the Commission was required to adopt regulations to: 1) limit the instances in which Commission-regulated FCMs, IBs, commodity pool operators (CPOs), and commodity trading advisors (CTAs) subject to Commission jurisdiction, may disclose nonpublic personal information about a consumer to nonaffiliated third parties; and 2) require those entities to disclose to their customers their privacy policies and practices with respect to information sharing with both affiliates and nonaffiliated third parties.
- *Advisories on Foreign Currency.* In February 2001, the Commission issued an advisory clarifying that the CEA applies to off-exchange foreign currency futures and option trading involving retail customers, and that such trading is legal only if the counterparty is a regulated financial entity enumerated in the CEA (as amended by the CFMA). FCMs and their affiliates are included in the enumerated categories. The Commission issued a subsequent advisory in March 2002 that incorporated previous advisories and addressed issues of: 1) entities introducing retail customers to registered FCMs that act as counterparties to these customers for purposes of trading off-exchange foreign currency futures or option contracts; 2) the managing of retail off-exchange foreign currency futures or option accounts; and 3) the operation of pools trading exclusively in off-exchange futures or option contracts involving foreign currency.
- *Study of the Commodity Exchange Act and Rules Thereunder.* The CFMA required the Commission to study provisions of the CEA and Commission rules and orders that govern the conduct of persons required to be registered under the CEA and to submit a report to the Senate and House Agriculture Committees identifying: 1) core principles the Commission has adopted or intends to adopt to replace Commission rules; 2) rules that the Commission decides to retain and the reasons therefor; and 3) the regulatory functions that the Commission performs that can be delegated to a registered futures association (RFA) and the functions that the Commission has determined must be retained and the reasons therefor. In June 2002, the Commission delivered to Congress a report on its study of potential regulatory relief for the FCMs, IBs, CPOs, CTAs, and FBs who serve as intermediaries in the commodity futures and option markets. In the report, the Commission noted that study participants indicated a desire for the Commission to provide additional flexibility to registrants in meeting their obligations under the Act. None of the participants advocated that the existing Commission rules be deleted wholesale and replaced by a defined set of core principles. Instead, participants focused on specific rules or sets of rules within the existing framework that they believed should be modified or eliminated, such as Commis-

sion rule 1.35 regarding bunched orders, or expanded, such as the exemption from the CPO registration requirements.

- *Trading Facilities Review Procedures.* The staff of the Market Oversight program established internal procedures to facilitate the review and disposition of new market applications and filings made pursuant to the new regulatory framework for trading facilities. In particular, these procedures will facilitate the Commission's implementation of regulations that require the review of designated contract market applications within 60 days and the review of DTEF applications within 30 days.
- *Intermediary Rules Reform.* In October 2001, the Commission revised many of its key rules governing intermediaries, including FCMs, IBs, CPOs, CTAs and their respective associated persons (APs), as well as FBs and FTs. The changes: 1) permit intermediaries, with customer consent, to deliver transaction and account statements electronically; 2) provide a streamlined process for opening customer accounts that includes certain disclosures in the customer agreement and permits acknowledgment by the customer through a single signature; 3) permit applicants for registration as IBs who have raised their own capital to file unaudited financial reports to demonstrate satisfaction of the minimum financial requirements; 4) reduce the number of officers who are required to be listed as principals; 5) provide customers with greater flexibility in closing out offsetting positions; 6) permit greater flexibility in ethics training by replacing the former prescriptive rule with a Statement of Acceptable Practices; and 7) provide broader access to DTEFs by permitting retail customers to trade through a CTA with \$25 million or more in assets under management.
- *NOS Clearing ASA's Multilateral Clearing of OTC Derivative Instruments.* In January 2002, the Commission issued an order pursuant to Section 409(b)(3) of the Federal Deposit Insurance Corporation Improvement Act, as amended by the CFMA, finding that the supervision by the Norwegian Banking, Insurance and Securities Commission of NOS Clearing ASA (a Norwegian clearinghouse) satisfies appropriate standards for multilateral clearing of OTC derivative instruments. The Commission's order permits NOS to clear and settle trades by U.S. persons on the International Maritime Exchange (IMAREX).
- *Approval of Designated Contract Market Applications.* Commission staff participated in teams responsible for reviewing contract market applications. The Commission's reviews focused on compliance with the designation criterion and core principles dealing with financial integrity of transactions, including clearance and settlement with a DCO. The Commission has approved the applications for OneChicago, LLC (OCX) and Island Futures Exchange, LLC.
- *DCO Registration.* The Commission approved applications submitted by the London Clearing House (LCH), the Options Clearing Corporation (OCC), and the Guaranty Clearing Corporation (GCC), to register with the Commission as derivatives clearing organizations. The LCH was registered in October 2001, and it was the first offshore clearing organization to be registered since passage of the CFMA. The OCC was registered in December 2001, and is also a securities clearing agency registered under the Securities Exchange Act of 1934 that provides clearing and settlement services for securities options traded on national securities exchanges. The GCC, a wholly owned subsidiary of the Board of Trade Clearing Corporation (BOTCC), was registered in July 2002 and will be able to clear both exchange-traded contracts as well as OTC contracts.

- Online Registration System. In May 2002, the Commission adopted amendments to Part 3 of its rules, which governs the registration of intermediaries in the futures industry. These amendments were adopted to facilitate the implementation of an online registration system. The amendments permit: 1) FBs with temporary licenses to act as fully registered FBs; and 2) an applicant for AP registration to receive a temporary license upon filing the Form 8-R and sponsor's certification before fingerprints are submitted. The online registration system should provide applicants with a more streamlined process for registering, resulting in less redundancy and quicker processing of applications by the National Futures Association (NFA). Through the online registration system, registrants and applicants should be able to provide NFA with required information more quickly and easily and enable NFA to process this information more efficiently, while maintaining most of the features of the previous, paper-based system. Additionally, information on registrants should be more readily accessible by the Commission, NFA, and the public.

Pay Parity

The May 13, 2002 signing of the Farm Security and Rural Investment Act of 2002 granted the CFTC the authority to achieve "pay parity" with other Federal financial regulatory agencies. In order to implement this provision, the Commission briefed congressional staff on the FY 2003 budget request and on the estimated costs of pay parity. The Commission also developed internal plans to implement this authority and initiated a contract, with the approval of the agency's Executive Management Council, to procure consulting services to develop implementing mechanisms for a competitive program of compensation and benefits. In addition, the Commission developed interim systems to support the transition to pay parity and continued to assess the impact of retention bonuses on recruitment and turnover. The President's Budget for FY 2004 supports pay parity for the Commission. The Commission expects to have developed a proposed pay parity plan by April 2003.

Enforcement

The primary goal of the Enforcement program is to police futures and option markets for conduct that violates the CEA or Commission regulations. Such misconduct undermines the integrity of the markets and the confidence of market participants. The following matters are examples of significant developments during the past year:

Foreign Currency Trading. During FY 2002, the Commission continued its initiative to battle retail foreign currency fraud by unregistered bucket shops. While much foreign currency trading is legitimate, various forms have been touted in recent years to defraud members of the public. Under the CFMA, it is unlawful to offer off-exchange foreign currency futures or option contracts to retail customers unless the counterparty is a regulated financial entity enumerated in the CFMA, such as an FCM (or an affiliate of an FCM). In addition, the Commission has jurisdiction to investigate and prosecute foreign currency fraud involving futures or options. Currency trading scams often attract customers through advertisements in local newspapers, radio promotions, or attractive Internet Web sites. These advertisements may tout purportedly high return, low-risk investment opportunities or even highly paid currency-trading employment opportunities.

The Commission's forex initiative includes an important public education component. In FY 2002, the Enforcement program launched an advertising campaign to raise consumer awareness of the perils of foreign currency trading. Respond-

ing to the targeting of various foreign language communities by fraudulent forex businesses, the Enforcement program published educational advertisements in three Los Angeles area newspapers beginning in April 2002: The *Chinese Daily News*, *La Opinion*, and the *Korean Central Daily News*. The ads encouraged readers who spoke Chinese, Spanish, or Korean to call an Enforcement telephone hotline to report suspect foreign currency trading activity.

In FY 2002, the Commission filed 12 enforcement actions against 61 firms and individuals selling illegal foreign currency futures and option contracts, bringing the total of such actions to 19 since enactment of the CFMA. This year's actions reflect the increasing sophistication of forex scam artists. In some cases, the defendants continuously moved the locus of their operation to try to stay one step ahead of the authorities; in others, the defendants attempted to evade the Commission's jurisdiction by claiming they were dealing with regulated counterparties (some in foreign locations), or that the contracts sold were spot (and not futures) transactions. The Commission was successful in getting orders to stop the misconduct in all of these cases. Fighting forex fraud continues to be a priority for the Commission.

The 12 forex cases filed by the Commission in FY 2002 are: *CFTC v. Rego Gainer Financial, Inc., et al.*, No. 02-01417-DT (C.D. Cal. filed February 19, 2002); *CFTC v. Myers, Arnold, Davidson, Inc., et al.*, No. 02-60239 (S.D. Fla. filed February 19, 2002); *CFTC v. MAS FX, LLC, et al.*, No. SACV02-173 (C.D. Cal. filed February 20, 2002); *In re Global Capital Investment LLC, et al.*, CFTC Docket No. 02-07 (CFTC filed Feb. 27, 2002); *CFTC and the State of Utah v. 4NExchange, LLC, et al.*, No. 2-02CV-432 (D. Utah filed May 2, 2002); *CFTC v. Advent Capital Partners, Ltd., et al.*, No. 1:02-CV-1381 (N.D. Ga. filed May 21, 2002); *CFTC v. Offshore Financial Consultants, et al.*, No. 02-60769 (S.D. Fla. filed June 4, 2002); *CFTC v. International Financial Services (New York), Inc., et al.*, No. 02-5497 (S.D.N.Y. filed July 17, 2002); *CFTC v. Nawab Ali Khan Ali, et al.*, No. 02-06619 PA (SHSx) (C.D. Cal. filed August 20, 2002); *CFTC v. First Bristol Group, Inc., et al.*, No. 02-61160-Civ-Lenard (S.D. Fla. filed August 20, 2002); *CFTC v. Global Financial Consulting, Inc., et al.*, No. 1:02 CV 2394 (N.D. Ga. filed August 28, 2002); and *CFTC v. O'Neill, et al.*, No. 02-61307-Civ-Gold (S.D. Fla. filed September 17, 2002).

Unregistered Commodity Pool Operator and Commodity Trading Advisor Fraud. Investors continue to fall prey to unregistered CPOs and CTAs that promise great riches with little risk and then, often, steal investor funds. Some of the scams are operated as "Ponzi" schemes⁴ in which early investors are paid purported "profits" with newer investor funds. In many of these cases the defendants have pre-existing business, social, religious, or ethnic ties to the individual investors. These personal relationships enable the defendants to gain the investors' trust and then lull them into a false sense of confidence.

To alert the public to this danger, the Commission issued a Consumer Advisory warning of investment opportunities promising large profits and little risk, even when offered by friends and acquaintances. The advisory included warning signs of possible fraud and provided information on how investors can protect themselves from becoming victims. The advisory is available on the Commission's Web site, along with other advisories concerning possible fraudulent activity in the commodity futures and options industry at:

<http://www.cftc.gov/cftc/cftccustomer.htm#advisory>.

⁴A Ponzi scheme is a type of fraud that requires an ever increasing stream of investors in order to fund obligations to the earlier investors, with a resulting pyramiding of the liabilities of the enterprise.

Every year, the Enforcement program commits substantial resources to prosecuting such cases, many of which require immediate action to stop ongoing fraud, freeze assets, and preserve books and records. In FY 2002, the Commission filed nine actions against 22 firms and individuals. See *CFTC v. Chilcott, et al.*, No. 2:02-CV-94-FTM-29DNF (M.D. Fla. filed March 6, 2002); *CFTC v. Weinberg*, No. 02-02084 RSWL (RNBx) (C.D. Cal. filed March 12, 2002); *CFTC v. Wiles, et al.*, No. 3-02CV 0951G (N.D. Texas filed May 6, 2002); *CFTC v. Mady, et al.*, No. 02-72364 (E.D. Mich. filed June 11, 2002); *CFTC v. Smith, et al.*, No. CV 02-4898-MRP (MSNx) (C.D. Cal. filed June 20, 2002); *CFTC v. Sovereign Resource Management, Inc., et al.*, No. 02-1783 (D. Minn. filed July 18, 2002); *CFTC v. Gahma Corporation, et al.*, No. 1:02cv 00101 PGC (D. Utah filed August 13, 2002); *CFTC v. Lofgren, et al.*, No. 02 C 6222 (N.D. Ill. filed August 30, 2002); and *CFTC v. Lee, et al.*, No. 4:02CV 01477 CAS (E.D. Mo. filed September 30, 2002).

Registrants' Aiding and Abetting Liability. Commission registrants can, in appropriate circumstances, be held liable for aiding and abetting investor fraud. In December 2001, the Commission simultaneously instituted and settled an administrative enforcement action against Republic New York Securities Corporation (Republic), a registered FCM, for aiding and abetting its customer, Martin Armstrong, in defrauding investors around the world. Customer losses exceeded \$700 million. *In re Republic New York Securities Corporation*, CFTC Docket No. 02-03, Order Instituting Proceedings, Making Findings and Imposing Remedial Sanctions (CFTC filed December 17, 2001). Republic neither admitted nor denied the findings in the Commission's order. This is one of the largest investor frauds ever prosecuted by the Commission. The Commission filed a civil injunctive action against Armstrong in September 1999, which remains pending, charging him (and two related entities) with hiding significant trading losses from investors and operating a Ponzi scheme. *CFTC v. Armstrong, et al.*, No. 99-Civ 9669 (RO) (S.D.N.Y. filed September 13, 1999).

The Commission's order found that Republic's primary assistance to the scheme was its issuance of over 200 false "net asset value" (NAV) letters to Armstrong. According to the order, Republic knew that Armstrong forwarded the NAV letters to investors and that the majority of the letters materially overstated balances allegedly available in the accounts. The Commission's order also found that Republic suffered serious supervisory and regulatory failures and improperly allocated winning trades from certain investor accounts to a third-party account. The Commission's order was entered in coordination with an action filed by the U.S. Attorney's Office for the Southern District of New York, in which Republic was directed to make restitution payments in excess of approximately \$606 million to defrauded investors.

Investigation of Alleged Misconduct in the Energy Markets. The Enforcement program launched an extensive investigation of Enron's trading activity amid allegations that Enron had engaged in manipulative trading practices in energy-related markets. The investigation subsequently was expanded to include additional energy trading firms alleged to have engaged in "round tripping," a risk-free trading practice that produces wash results, and/or the reporting of false trading information, including price and volume information. The claims of misconduct arose out of disclosures about questionable accounting practices by energy companies aimed at enhancing their balance sheets. The ongoing investigation has focused on determining whether the alleged abusive trading constituted manipulation or fraud in particular commodity markets during specific periods of time. While it is not customary for the Commission to acknowledge an ongoing investigation, the Commission determined to confirm the existence of its energy-related investigation because of the significant public interest in the allegations and the disclosure of related investigations by other Federal agencies.

Cross-Border Violations. The Enforcement program also has devoted time and resources to matters involving allegations that persons or entities have committed fraud or other misconduct in their cross-border activities. Such misconduct can adversely affect U.S. firms as well as customers located in the U.S. and overseas. The Commission's efforts in this area during FY 2002 included the filing of the following four administrative and three civil injunctive actions: *In re Republic New York Securities Corporation*, CFTC Docket No. 02-03 (CFTC filed December 17, 2001); *In re Ligammari*, CFTC Docket No. 02-05 (CFTC filed February 11, 2002); *In re Vaughn*, CFTC Docket No. 02-06 (CFTC filed February 25, 2002); *CFTC v. Offshore Financial Consultants, et al.*, No. 02-60769 (S.D. Fla. filed June 4, 2002); *CFTC v. International Financial Services (New York), Inc., et al.*, No. 02-5497 (S.D.N.Y. filed July 17, 2002); *CFTC v. Sovereign Resource Management, Inc., et al.*, No. 02-1783 (D. Minn. filed July 18, 2002); and *In re Miller, et al.*, CFTC Docket No. 02-14 (CFTC filed July 15, 2002).

Litigation

Through the litigation program, the Office of the General Counsel (OGC) represents the Commission in the U.S. District Courts and the U.S. Courts of Appeals and assists the Solicitor General in representing the Commission before the U.S. Supreme Court.

During FY 2002, the Commission succeeded in obtaining dismissal of two cases before the U.S. Supreme Court that sought to challenge rulings favorable to the Commission. *Busch v. CFTC*, No. 01-15016 (S. Ct.); *Perk v. CFTC*, No. 01-8252 (S. Ct.).

Before the U.S. Courts of Appeals, the Commission obtained favorable rulings upon a variety of issues. Most notably, the U.S. Court of Appeals for the Fourth Circuit ruled that the Commission possesses authority to seek full relief on behalf of customers whose assets have been lost due to fraudulent activity even when those assets are held by entities that, while not responsible for fraud, nevertheless, lack a legitimate claim to them. *CFTC v. Kimberlynn Creek Ranch*, No. 00-1989 (4th Cir.).

In a number of cases, OGC successfully defended the Commission in appeals by violators of the CEA who failed to return funds to defrauded customers, among them, *CFTC v. Baragosh*, No. 00-1488 (4th Cir.), *CFTC v. Wuensch*, No. 00-16603 (11th Cir.), *CFTC v. Infinite Trading Group*, No. 01-13112-G (11th Cir.), *CFTC v. Samaru*, No. 00-56271 (9th Cir.), and *CFTC v. Flanigan*, No. 01-12361-I (11th Cir.).

In the U.S. District Courts, OGC successfully defended the Commission's right to conduct an enforcement action in *Agora v. CFTC*, No. 01-1625-A (E.D. Va). In addition, OGC represented the Commission in personnel cases before the district courts and before administrative agencies, such as the Equal Employment Opportunity Commission (EEOC), and the Merit Systems Protection Board (MSPB).

OGC also monitors bankruptcy cases involving futures industry professionals and, as appropriate, assists courts, trustees, and customers in implementing special U.S. Bankruptcy Code provisions that pertain to commodity firms. In FY 2002, OGC appeared before various U.S. Bankruptcy Courts throughout the country to protect both the Commission's interests in law enforcement and customer interests in the recoupment of lost funds. In FY 2002, OGC actively participated in six bankruptcy cases and monitored affairs in another six cases.

Finally, through its *amicus curiae* program, OGC supports the Commission in assisting the courts in resolving difficult or novel questions arising under the CEA or Commission regulations with the intent of making significant contributions to the development of consistent and accurate legal precedent. In FY 2002, OGC actively considered participating as *amicus curiae* in six cases.

Implementation of the Bank Secrecy Act as Amended by the USA PATRIOT Act of 2001

Since adoption of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001, Commission staff have participated in an interagency working group and an internal Commission task force responsible for implementing and making recommendations on the implementation of the anti-money laundering provisions of the Bank Secrecy Act, as amended by the USA PATRIOT Act. The Bank Secrecy Act requires all financial institutions, including FCMs, IBs, CPOs, and CTAs, to adopt and implement anti-money laundering compliance programs by April 24, 2002. (The date for CPO and CTA compliance was deferred by the U.S. Treasury Department.) To meet this requirement, Commission staff worked with NFA in its adoption of Compliance Rule 2-9(c) and a related Interpretive Notice requiring FCM and IB members of NFA to adopt and implement anti-money laundering programs.

The Commission's anti-money laundering task force also assisted in the preparation of several proposed anti-money laundering rules required to be issued by Treasury that will impact the futures industry, including joint proposed rules requiring FCMs and IBs to establish customer identification and verification programs, and proposed rules requiring unregistered investment companies, including commodity pools, to establish anti-money laundering programs. In addition, the anti-money laundering task force consulted with staff of Treasury and various Federal financial regulators concerning a number of other anti-money laundering rulemakings and reports, including proposed rules involving correspondent and private banking accounts, rules regarding information sharing with law enforcement and between financial institutions, rules concerning the anti-money laundering requirements applicable to mutual funds and other financial institutions, and a report to Congress required by the USA PATRIOT Act on recommendations for effective regulations to apply anti-money laundering requirements to investment companies. The task force also developed an in-house training program concerning these anti-money laundering initiatives, which was presented to Commission staff on June 13, 2002.

International Regulatory Cooperation

- **Information Sharing.** Memoranda of understanding (MOU) provide a framework for authorities to share information and extend assistance to one another in taking statements, collecting information, and conducting investigations. The Commission continued to expand its information sharing arrangements in FY 2002 by executing MOUs with regulatory agencies in Japan and Jersey. In addition, the Commission entered an arrangement with the French Conseil des Marchés Financiers for sharing of fitness information on remote market members, and the Commission concluded an arrangement on regulatory cooperation with the Superintendencia de Valores Y Seguros de Chile and the Chinese Securities Regulatory Commission.
- **Best Practices.** The Commission also continued its active participation within the International Organization of Securities Commissions (IOSCO) to de-

velop regulatory "best practice" principles in the following areas that are intended to help foster higher international regulatory standards and increased access to markets and products:

- Regulatory Oversight. The Commission continued its active participation in the IOSCO task force on the implementation of the IOSCO report, *Objectives and Principles of Securities Regulation (Core Principles)* that were adopted as a statement of international "best practices." The Commission chairs the IOSCO Implementation Task Force, which has: 1) prepared surveys for a high-level self-assessment on the extent to which the Core Principles have been implemented; 2) evaluated completed survey responses from the IOSCO membership; 3) provided comment to the International Monetary Fund and World Bank on a note to guide those institutions' use of the IOSCO Principles in their Financial Sector Assessment Program; and 4) been developing a methodology for IOSCO to assess compliance with the IOSCO Core Principles.
- Internet. The Commission participates in IOSCO task forces that have examined the regulatory implications of the increasing use of the Internet in securities and derivatives markets and currently is helping to organize North American roundtables to discuss new developments.
- Securities Settlement Systems. The Commission actively participated in a joint IOSCO Committee on Payment and Settlement Systems (CPPS) Task Force that developed recommendations for improving securities settlement systems and an assessment methodology for the clearing and settlement principles.
- IOSCO Standing Committee on Secondary Markets and Market Intermediaries. During FY 2002, the Commission continued its participation in IOSCO standing committees that have been examining regulatory issues affecting markets and intermediaries. Issues being examined include single-stock listing standards, indexation, trading halts, the effect of transparency on market fragmentation, current practices of intermediaries in liquidity management, and the regulation of financial intermediaries conducting cross-border business.
- IOSCO Standing Committee on Enforcement and Information-Sharing. During FY 2002, the Commission's Enforcement program continued to participate in IOSCO's Standing Committee on Enforcement & Information Sharing (SC4). SC4 considers issues and formulates recommendations relating to international assistance in the detection, investigation, and prosecution of securities and futures violations. The Commission actively participated in the development of a multilateral MOU that would establish minimum standards for cooperative enforcement and information exchange, including a demonstration of authority to obtain and share information.
- International Assistance and Cooperation. During FY 2002, the Commission continued to provide assistance to foreign regulators through the Commission's annual training seminar in Chicago, publications, individual training, and other forms of assistance, including organizing the annual meeting for international regulators during the Futures Industry Association's (FIA) conference in Boca Raton, Florida. The conference focused on identifying practical methods to reduce unnecessary duplication of regulatory efforts or requirements affecting the same entity operating globally. Commission staff also worked with the Inter-Development Bank (IDB) to produce an article on the development of futures markets and a transcript of relevant sessions of the annual training seminar, which the IDB translated into Spanish for use by South American countries.

New and Innovative Exchanges

The Commission is faced with an increasing number of important issues concerning the impact of technological changes on methods of transacting business on futures exchanges and a proliferation of designation applications for new electronic futures exchanges:

- *OneChicago (OCX)*. In June 2002, the Commission designated OCX as a contract market. OCX is the third exchange to receive designation to permit trading of futures contracts on individual securities and narrow-based securities indices. OCX is owned and operated by the Chicago Mercantile Exchange (CME), Chicago Board Options Exchange (CBOE), and the Chicago Board of Trade (CBT).
- *Island Futures Exchange, LLC (Island)*. On February 19, 2002, the Commission granted contract market designation to Island, the CFTC's second exchange designation, to permit trading of futures contracts on SFPs. Island is owned and operated by Island Holdings, LLC, which also owns and operates The Island ECN, Inc., an alternative trading system.
- *Intercontinental Exchange (ICE)*. Commission staff reviewed for sufficiency under the CEA and the Commission's regulations a notice of intent to operate as a Section 2(h)(3) exempt commercial market received from ICE. In response, the Commission issued an acknowledgement letter to ICE on January 14, 2002.
- *Weather Board of Trade, LLC (WBOT)*. Commission staff reviewed for sufficiency under the CEA and the Commission's regulations a notice of intent to operate as a Section 5d exempt board of trade received from WBOT. Commission staff then issued an acknowledgement letter to WBOT on April 30, 2002. The exempt board of trade category was specifically created by the CFMA. (The Commission separately issued on May 30, 2002 an order finding that measures of weather, such as those to be traded on WBOT, are eligible for trading on exempt boards of trade under the provisions of Section 5d of the CEA.)
- *TradeSpark, LP (TradeSpark)*. Commission staff reviewed for sufficiency under the CEA and the Commission's regulations a notice of intent to operate as a Section 2(h)(3) exempt commercial market received from TradeSpark. The Commission issued an acknowledgement letter to TradeSpark on June 27, 2002.
- *Minneapolis Grain Exchange (MGE) New Trading System*. On December 13, 2002, the Commission approved rule changes implementing MGExpress, an electronic trading system at MGE. Initially, the system will be used to trade two new contracts, while the remainder of MGE's contracts will continue to trade on the exchange floor.
- *Nasdaq-Liffe (NQLX)*. On May 24, 2002, the Commission removed the conditions on NQLX's conditional order of designation. NQLX had originally been designated in August 2001—the first exchange designation by the Commission to permit the trading of SFPs.

New and Innovative Products

In FY 2002, the exchanges filed with the Commission 39 new futures and option contracts based on a wide variety of underlying physical products and financial instruments. In addition to the eight contracts submitted for Commission approval, another 31 were filed under the Commission's certification procedures,

whereby exchanges certify that their contracts comply with statutory and regulatory requirements. Several of the approved contracts represent innovative approaches designed to meet specialized hedging needs of producers and firms. The Commission reviewed physical-delivery petroleum and natural gas futures contracts, interest rate swap futures contracts, and Xfund futures contracts.

Exchange Developments

- New York Mercantile Exchange (NYMEX) Exchange of Futures for Futures Transactions. In May 2002, the Commission approved a rule that would permit the exchange of futures for futures transactions (EFFs) in the Brent crude oil futures contract. Brent EFFs are non-competitive transactions that are intended to be used as a mechanism by which Brent futures positions on other regulated futures exchanges can be transferred to NYMEX.
- Merchants Exchange (ME) Governance Rules. On June 13, 2002, the Commission approved new ME rules related to conflicts of interest and composition requirements for ME's board and various committees. The rules were proposed in response to the Commission's recent adoption of core principles governing these areas.
- ME Energy Trading. On January 25, 2002, the Commission approved various ME rules permitting exchange of futures for physical commodity transactions, exchange of futures for swaps transactions, and block trades in newly listed energy contracts at the exchange.
- New York Board of Trade (NYBT) Conflict of Interest Rules. In July 2002, the Commission approved rule changes at the various component exchanges of the NYBT establishing when committee and board members must abstain from deliberating and/or voting on matters in which they have conflicts of interest.
- CME Reorganization. In November 2001, the Commission approved various CME rules and rule amendments enabling the CME to reorganize into a holding company. Under the reorganization plan, the futures exchange will become a wholly owned subsidiary of CME Holdings, Inc. through a merger of CME into a new subsidiary.

Financial Integrity—Net Capital and Customer Funds

- Risk-Based Capital. Commission staff are developing rules to replace the current minimum capital requirement with a risk-based capital requirement and plan to recommend that the Commission issue proposed rules.
- Review of Rule 1.25 Investments. Effective December 28, 2000, the Commission modified Rule 1.25 to expand greatly the types of investments FCMs and clearing organizations are permitted to make with customer funds that are segregated as required by Section 4d(a)(2) of the Act. Commission staff have commenced reviews of FCMs to determine whether their investments of customer segregated funds comply with Rule 1.25 and also to determine whether the FCMs are complying with certain other Commission rules. Specifically, with respect to Rule 1.25, the audit objective is to determine the types of investments an FCM is making with customer segregated funds and whether those investments comply with the marketability, rating, concentration, and other requirements for such investments set out in Rule 1.25. Staff completed

eight such reviews during FY 2002 and will carry out additional reviews next fiscal year.

Foreign Futures

- *Foreign Board of Trade Electronic Trading in the U.S.* In March 2002, the Commission issued a no-action letter to MEFF Sociedad Holding de Productos Financieros Derivados S.A. in connection with the placement of terminals in the U.S. to provide access to the MEFF S/MART electronic trading and order matching system.
- *Comparability Relief.* In May 2002, the Commission issued an order under Rule 30.10 granting the application for relief by Eurex Deutschland on behalf of certain firms located and doing business in Germany. This relief permits those members to solicit and accept orders and funds related thereto from persons located in the U.S. for trades on the exchange without registering under the CEA or complying with rules therein based upon substituted compliance with applicable German law and Eurex rules. In June 2002, the Commission issued an order under Commission Rule 30.10 exempting certain firms designated by the Bolsa De Mercadorias & Futuros (Brazil futures exchange) from certain requirements of the foreign futures and option rules.

Oversight of Self-Regulatory Organization (SRO) Programs

- *CBT Trade Practice Surveillance and Disciplinary Program.* In February 2002, Commission staff issued a follow-up rule enforcement review report to its June 2000 rule enforcement review of the CBT. The purpose of the review was to evaluate CBT's progress in implementing the recommendations made by Commission staff in its June 2000 rule enforcement review. The target period for the follow-up review was January 1, 2001 through June 30, 2001. Commission staff found that CBT had generally implemented the recommendations set forth in the June 2000 review. Staff issued one recommendation, however, with respect to CBT's disciplinary program.
- *CME Audit Trail, Trade Practice Surveillance, and Disciplinary Programs.* In June 2002, Commission staff issued a rule enforcement review report of the CME that covered the period of January 1, 2001 to July 1, 2001. The review evaluated CME's audit trail, trade practice surveillance, and disciplinary programs for compliance with relevant core principles. In its review, staff found that CME maintains adequate programs with respect to the areas reviewed. However, staff made recommendations to further improve these programs.
- *Commodity Exchange (COMEX) Division of the NYMEX Audit Trail, Trade Practice Surveillance, and Disciplinary Programs.* In August 2002, Commission staff issued a rule enforcement review report that evaluated COMEX's audit trail, trade practice surveillance, and disciplinary programs for compliance with relevant core principles. The review covered the period of January 1, 2001 through December 31, 2001. Commission staff found that COMEX maintained adequate audit trail, trade practice surveillance, and disciplinary programs. Commission staff, however, made recommendations for further improvement.
- *NFA Disciplinary Program.* Commission staff completed a review of NFA's disciplinary program. The review found that NFA's disciplinary program is generally well designed, executed by experienced staff, and highly successful

in obtaining judgments against NFA members who have been determined to have committed violations meriting discipline. The staff report included four recommendations for improvement in NFA's disciplinary program.

- *Risk Management Report*. Commission staff completed a report of the "stress testing" and related risk management procedures in place at the CME, CBT, and the BOTCC. The report covers procedures the exchanges and clearinghouses used to evaluate the effect of large hypothetical price movements on trader and firm portfolios and the procedures for following up on hypothetical losses. Staff reported that the exchanges and clearinghouses had sufficient stress-testing risk management procedures in place and that they had adequately investigated the ability of traders and firms to cover losses in the event of a large market move.
- *CME Clearinghouse's Segregation of Customer Funds*. Commission staff completed a review of CME's compliance with the requirements of the CEA and Commission rules regarding the segregation of customers' money, securities and property, and the related record-keeping rules. Staff of the Clearing and Intermediary Oversight program found that the CME was segregating and separately accounting for customers' funds as required by Section 4d(a)(2) of the Act and Commission Rules 1.20(b) and 1.26(b) and was retaining appropriate records as required by Rule 1.31. Program staff originally selected August 31, 2000 as the audit date for this review. On November 13, 2000, prior to the completion of the Commission's report, CME demutualized by converting membership interests into shares of common stock. As a consequence, Clearing and Intermediary Oversight program staff updated the report and assessed what impact, if any, demutualization may have had on segregation and related activities. Clearing and Intermediary Oversight program staff reviewed updated information as of May 31, 2001 in order to allow for six full months of operation under the new organizational structure.

Oversight of Registered Futures Associations

- *Risk Disclosure for SFPs*. In October 2002, the Clearing and Intermediary Oversight program permitted NFA's interpretative notice to NFA Compliance Rule 2-30(b) governing risk disclosure requirements for SFPs to become effective under the "10-day" provision without Commission review. NFA's rule would require that at or before the time a customer is approved to trade SFPs, he/she must be furnished with a disclosure statement concerning SFPs, which will include information on treatment of customer funds required by the rules adopted jointly by the SEC and CFTC.
- *Best Execution of Customer Orders for SFPs*. In July 2002, the Commission approved NFA's interpretive notice to NFA Compliance Rule 2-4 regarding the obligation of NFA members who notice-register as broker dealers under the Securities Exchange Act of 1934 for the limited purpose of trading SFPs to seek best execution of customer orders.
- *Soliciting or Accepting Orders for SFPs*. In April 2002, the Commission approved NFA's interpretive notice to NFA Compliance Rule 2-4 to clarify the obligation of NFA members soliciting or accepting orders for SFPs to be registered as broker-dealers under the Securities Exchange Act of 1934, in addition to their primary registration as FCMs or IBs under the CEA.
- *Proficiency Training Concerning SFPs*. In September 2002, the Clearing and Intermediary Oversight program permitted NFA's interpretive notice to NFA Compliance Rules 2-7 and 2-24 and Registration Rule 401 concerning profi-

ciency requirements with respect to SFPs to become effective under the "10-day" provision without Commission review.

- *Commissions on SFP Transactions.* In April 2002, the Commission approved amendments by NFA of its Compliance Rule 2-37 and an accompanying interpretive notice regarding the fairness of commissions charged by NFA members in connection with SFP transactions.
- *Procedures for Supervision of the Use of Automated Order Routing Systems.* In June 2002, the Commission approved NFA's interpretive notice to NFA Compliance Rule 2-9 regarding adoption and enforcement by NFA members of written procedures for supervision of the use of automated order routing systems.
- *Foreign Currency Trading.* In June 2002, the Commission approved NFA's rule prohibiting fraud by forex dealer members who are NFA members generating at least 35 percent of gross revenue from acting as a counterparty to retail customers in off-exchange foreign currency transactions.

Response to September 11, 2001

During FY 2002, Commission staff focused on responding to the events of September 11, 2001. OED led the project to develop a request for emergency supplemental appropriations to relocate the Commission's New York staff to two temporary locations and to build the new permanent office space in lower Manhattan. This included the negotiation of both a temporary lease and the negotiation of a complex 10-year lease as well as the acquisition of furniture, equipment, and library materials. The New York staff moved to their new home on April 29, 2002, just seven months after the loss of their World Trade Center office.

After assessing lessons learned from the response to the September 11 emergencies, OED completed a database of employee emergency locator information and identified means to store duplicate employee files off site. To increase security, OED implemented new security measures in the headquarters office to ensure that all authorized visitors wear badges and to provide security services during business hours until permanent security enhancements are in effect. Staff also entered into a contract for review of the security status and needs of the headquarters office. OED also created an auxiliary mail receiving area for incoming mail to segregate incoming from outgoing mail and developed new mail handling procedures. We also coordinated the agency's participation in Financial and Banking Information Infrastructure Committee (FBIIC).

In addition, OED provided a variety of services to the staff of the Commission, including: 1) contracting for increased support from our Employee Assistance Program, particularly to the staff of the New York regional office; 2) establishing bi-weekly in-house counseling programs in most CFTC offices; 3) expanding health services to include pulmonary function, physical examination, and other preventive health screenings; 4) arranging testing of the New York office's air and water by Federal Occupational Health; and 5) coordinating training, counseling, and recognition and awards ceremonies for New York staff.

Space Management

OED manages the Commission's real estate portfolio of approximately 250,000 square feet of rented office space for headquarters and five regional offices. In addition to the work on the New York leases, considerable effort was dedicated during FY 2002 to negotiating and executing a 10-year office space lease for the new location of the Commission's Chicago Regional Office. The Chicago office

moved in January 2002 to new office space, and efforts continued in FY 2002 to plan for the replacement of furniture in the Chicago office. The Commission also received an unsolicited offer to extend the lease for the headquarters office in Washington, D.C. and began negotiations and plans for a reconfigured Washington, D.C. office that will meet the long-range needs of the Commission.

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FY 2004 President's Budget

FY 2004 PRESIDENT'S BUDGET BY PROGRAM

	FY 2002		FY 2003		FY 2004 Current Svcs.		FY 2004 Request	
	FTE	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE	\$ (000)
<u>Market Oversight</u>	105	\$15,129	114	\$15,896	114	\$19,778	100	\$16,922
Market Compliance	49	7,044	43	7,295	43	9,010	35	7,591
Market & Product Review	10	1,449	16	2,368	16	2,928	16	2,905
Market Surveillance	46	6,636	55	6,233	55	7,840	49	6,426
<u>Clearing & Intermediary Oversight</u>	65	9,376	68	9,805	68	12,184	60	10,672
Compliance & Registration	13	1,894	17	2,143	17	2,689	15	2,313
Audit & Financial Review	52	7,482	51	7,662	51	9,495	45	8,359
<u>Chief Economist</u>	7	1,010	9	1,394	9	1,724	8	1,415
<u>Enforcement</u>	144	21,406	148	22,269	148	27,495	143	26,341
<u>Proceedings</u>	15	2,245	15	2,265	15	2,792	14	2,585
<u>General Counsel</u>	33	4,765	30	4,991	30	6,179	30	6,121
<u>Exec. Direction & Support</u>	145	21,408	157	23,265	157	28,651	134	24,379
Agency Direction	47	6,896	52	8,224	52	10,140	44	8,641
Admin. Mgmt. & Support ⁵	98	14,512	105	15,041	105	18,511	90	15,738
Total	514	\$75,339	541	\$79,885	541	\$98,803	489	\$88,435

Table 4: FY 2004 President's Budget by Program

⁵ Includes information technology in support of all programs.

Market Oversight

Total Budget:	\$16,922,000	100 FTEs
Total Change:	\$ 1,026,000	-14 FTEs

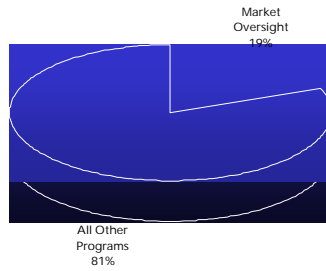


Figure 4: Market Oversight
Percentage of Total Budget Dollars

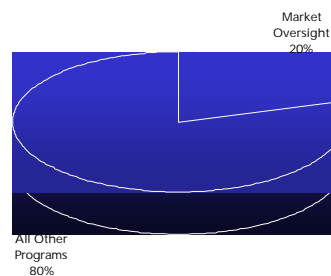


Figure 5: Market Oversight
Percentage of Total Budget FTEs

Justification of the FY 2004 President's Budget

The primary responsibility of the Market Oversight program is to foster markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity. By detecting and protecting against price manipulation and abusive trading practices, this program assists the markets in performing the vital economic functions of price discovery and risk transfer (hedging). The Market Oversight program will initiate and carry out the Commission's surveillance and oversight programs for these markets. The program also will conduct trade practice surveillance and reviews of exchange and futures association rule amendments and submissions. In addition, the program will develop, implement, and interpret regulations that protect customers, prevent trading and sales practice abuses, and assure the financial integrity of the futures markets.

In FY 2004, the Market Oversight program requests 100 FTEs, which is 14 FTEs below the FY 2003 level. The three subprograms—Market Surveillance, Market and Product Review, and Market Compliance—will have 49 FTEs, 16 FTEs, and 35 FTEs, respectively.

Market Surveillance

Futures prices are generally quoted and disseminated throughout the U.S. and abroad. Business, agricultural, and financial enterprises use the futures markets for pricing information and for hedging against price risk. The participants in commercial transactions rely extensively on prices established by the futures markets, which affect trillions of dollars in commercial activity. Moreover, the prices established by the futures markets directly or indirectly affect all Americans. They affect what Americans pay for food, clothing, and shelter, as well as other necessities. Since futures and option prices are susceptible to manipulation and excessive volatility and since producers and users of the underlying commodities can be harmed by manipulated prices, preventive measures are necessary to ensure that market prices accurately reflect supply and demand conditions.

Actions to detect and prevent price manipulation are taken by economists who monitor all active futures and option contracts for potential problems. Of the 50 FTEs allocated to the Market Surveillance subprogram, three will work on investigating possible manipulation and other trading abuses, two will work on routine reports of large trader activity, one will work with the Market Compliance subprogram on conducting rule enforcement reviews, and 44 FTEs will be employed to detect and prevent threats of price manipulation or other major market disruptions caused by abusive trading practices. This involves:

- Analyzing the activities of large traders, key price relationships, and relevant supply and demand conditions for an anticipated 258 futures and option contracts representing major agricultural commodities, metals, energy, financial instruments, equity indices, foreign currencies, and newly authorized SFPs; and
- Preparing reports on special market situations and weekly reports on market conditions for contracts approaching their critical expiration periods. Potential problems are discussed weekly with the Commissioners and senior staff. The Commission and the affected exchange, jointly in most cases, develop and administer any necessary responsive measures. The Commission shares pertinent information with other regulatory agencies.

Price manipulation prevention activities of Market Surveillance economists are enhanced by support personnel, such as futures trading specialists, futures trading assistants, and statisticians. Their activities include:

- Operating an extensive daily data-gathering and verification system and collecting reports from exchanges, futures industry firms, and traders. The reports provide current market information on the size of futures and option positions held by large traders as well as other background information that is necessary to enforce Commission and exchange speculative limits;
- Providing software development and statistical support to quantify and display important relationships between key economic variables; and
- Improving the effectiveness and efficiency of the large trader reporting system.

Market and Product Review

In order to serve the vital price discovery and hedging functions of futures and option markets, exchanges must provide consumers safe marketplaces that have appropriate protections in place and provisions for ensuring the integrity of contracts traded. Exchanges must list products for trading that are not readily susceptible to manipulation and do not lead to price distortions or disruptions in the futures or option markets and in the underlying cash markets. Adherence to the approval criteria and core principles and appropriate contract design minimizes market disruptions and the susceptibility of the contracts to manipulation or price distortion.

The Market and Product Review subprogram, in cooperation with other offices of the Commission, reviews exchanges' applications for approval as a contract market or as a DTEF to ensure that the exchange is in compliance with approval criteria and core principles and Commission regulations for futures exchanges and derivatives transaction facilities. The subprogram also reviews filings by exempt markets and, on an ongoing basis, reviews these entities to ascertain whether they comply with statutory requirements.

The subprogram also reviews requests from exchanges for approval of new contracts and rule amendments to existing contracts to ensure that contracts are in compli-

ance with statutory and regulatory anti-manipulation requirements. It also conducts pre-surveillance reviews of new products and rule changes of economic significance submitted under certification procedures to provide information about the markets and product design features to ensure that contracts and rules comply with statutory requirements as well as the Commission's rules and policies. The reviews foster markets free of disruptions or price manipulation and provide essential information to conduct effective market surveillance and address regulatory and public interest issues. In this regard, deficiencies in the terms and conditions of futures and option contracts increase the likelihood of cash, futures, or option market disruptions and decrease the economic usefulness and efficiency of contracts.

In cooperation with other Commission staff, Market and Product Review staff also review the Commission's rules and policies related to oversight of regulated and exempt markets and products to ensure that the Commission's regulatory program is achieving Commission goals and does not hinder innovation. In cooperation with the Office of International Affairs (OIA), the subprogram works with foreign regulatory bodies as members of international working groups to provide assistance and expertise about futures and option trading, product design, surveillance, and the regulation of derivatives markets. The subprogram also provides support to the Enforcement program in the form of economic and analysis in connection with manipulation cases or other violations of commodity laws.

The Market and Product Review subprogram's also reviews exchange rule submissions with a view toward: 1) maintaining the fairness and financial integrity of the markets; 2) protecting customers; 3) accommodating and fostering innovation; and 4) increasing efficiency in self-regulation consistent with statutory mandates. These rule submissions often present complex new trading procedures and market structures as well as financial arrangements that raise novel issues

Market Compliance

The Market Compliance subprogram is responsible for:

- Oversight of compliance by U.S. futures exchanges;
- Development of rules to protect the economic functions of the commodity markets and foster open, competitive, and financially sound markets;
- Development of rules to protect market users, including requirements related to fitness, financial adequacy, and trading practices;
- Development of an effective, flexible regulatory environment responsive to evolving market conditions; and
- Development of rules and policies to address cross-border transactions, systemic risk, and emergency procedures to address market events, such as firm defaults and the coordination of policy with foreign market authorities.

The CEA requires each exchange, through a program of continuing rule enforcement, to ensure that its members adhere to exchange rules. The Market Compliance subprogram oversees, reviews, and reports to the Commission on the self-regulatory compliance programs of the exchanges. When appropriate, such reports include recommendations for improvements and schedules for implementing those recommendations.

Impact of Reduced Level of Resources

The growth in the number and different types of markets that trade a wider array of derivatives products, including single-stock futures, requires an increased quantity of surveillance, data collection, analysis, reporting, and research about new developments in derivatives trading. Surveillance and oversight of exchanges

and product design involves monitoring an increasing number of futures and option contracts to detect or prevent potential problems, price manipulation, and other major market disruptions caused by abusive trading practices of contract design flows.

In FY 2004, the Market Compliance staff will be required to monitor a large and diverse array of markets and will initiate and carry out the Commission's program of surveillance and oversight of single-stock futures. The Commission anticipates that a large number of these contracts will be listed for trading, both on futures and securities exchanges. At the requested level, surveillance, exchange oversight, and contract design reviews will not be commensurate with the growth in new types of exchanges and the initiation of trading in new products, such as single-stock futures and new energy products. Thus, the staff will be less well positioned to detect and prevent price manipulation and abusive trading practices, which could result in direct economic harm to producers and other users of the underlying commodities and indirect harm to the economy as a whole. The staff also would be less able to expeditiously review filings by exempt markets and, on an ongoing basis, assess whether these markets continue to comply with statutory requirements. While gains in productivity and increased use of information technology will make up for some of the resource gap, at the level of FTE commitment proposed here, there will have to be some shifting of attention from markets that are less susceptible to market disruption and toward both the new markets and the established markets that are more susceptible to disruption.

In addition, at the requested level, the staff would be less well positioned to conduct timely reviews of applications by entities seeking to become an approved futures exchange which would delay their bringing new products to the marketplace as quickly as possible. At the requested level, the staff would be less well positioned to fully monitor developments in derivatives trading and market innovations. In this regard, innovations in technology and derivative instruments and trading methods in futures markets create many challenging economic and regulatory issues. The performance of derivative markets has a potentially large impact on the stability of international and domestic financial markets. Market research and effective monitoring of these developments help ensure that the Commission has in place sound regulatory policies to reduce systemic risk in financial markets and protect the economic function of the markets without undermining innovation and the development of new approaches to risk management.

Consequence of Not Receiving Requested Level of Resources

If the Commission does not receive the resources requested for its Market Oversight program for FY 2004, the level of surveillance, exchange oversight, contract design reviews, and studies to enhance understanding of the markets will be even less commensurate with the growth in new types of exchanges, new trading execution methods in futures markets, and the initiation of trading in new products, such as single-stock futures. Thus, some price manipulations and abusive trading practices may go completely undetected or detected too late to permit amelioration or intervention.

In addition, staff may not be able to review all new contract and rule change submissions for approval within statutory time frames. This would result in direct economic harm to producers and other users of the underlying commodities and indirect harm to the economy as a whole since market prices may not accurately reflect supply and demand conditions.

Moreover, staff efforts to monitor developments in derivatives trading and market innovation would be delayed. This would undermine the ability of the Com-

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mission to keep its regulatory policies in line with new developments in the industry, which could impede innovation, lead to systemic risk in financial markets, and adversely affect the economic function of the markets. The staff levels requested for FY 2004 are the minimum that the Commission believes necessary to meet its market surveillance and oversight responsibilities.

Table 5: Market Oversight Request by Subprogram

	FY 2003		FY 2004		Change	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
Market Operations	\$7,295	43.00	\$7,591	35.00	\$296	-8.00
Product Review & Analysis	2,368	16.00	2,905	16.00	537	0.00
Market Surveillance	6,233	55.00	6,426	49.00	193	-6.00
TOTAL	\$15,896	114.00	\$16,922	100.00	\$1,026	-14.00

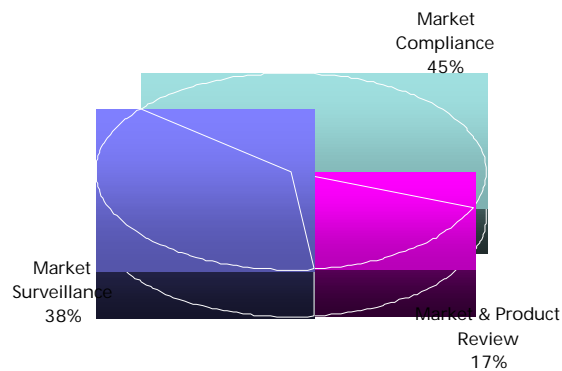


Figure 6: Market Oversight FY 2004 Budget Dollars by Subprogram

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Table 6: Market Oversight Request by Goal

	FY 2003		FY 2004		Change	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcome Objectives						
1.1 Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	\$8,108	66.00	\$8,972	62.00	\$864	-4.00
1.2 Oversee markets which can be used effectively by producers, processors, financial institutions and other firms for the purposes of price discovery and risk shifting.	953	7.00	1,026	6.00	73	-1.00
Subtotal Goal One	\$9,061	73.00	\$9,998	68.00	\$937	-5.00
GOAL TWO: Protect market users and the public.						
None						
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcome Objectives						
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	\$5,160	31.00	\$4,734	22.00	-\$426	-9.00
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	148	1.00	181	1.00	33	0.00
3.4 Promote markets free of trade practice abuses.	1,527	9.00	2,009	9.00	482	0.00
Subtotal Goal Three	\$6,835	41.00	\$6,924	32.00	\$89	-9.00
TOTAL	\$15,896	114.00	\$16,922	100.00	\$1,026	-14.00

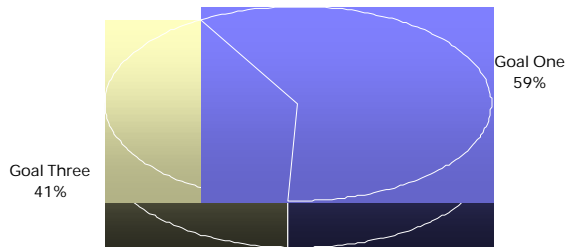


Figure 7: Market Oversight FY 2004 Budget Dollars by Goal

Clearing & Intermediary Oversight

Total Budget: \$10,672,000 60 FTEs
 Total Change: \$ 867,000 -8 FTEs

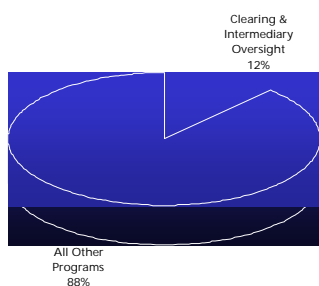


Figure 8: Clearing & Intermediary Oversight
 Percentage of Total Budget Dollars

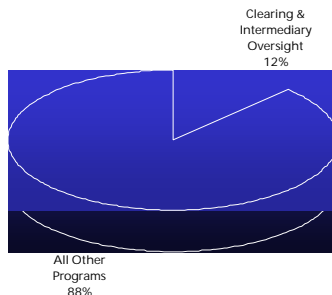


Figure 9: Clearing & Intermediary Oversight
 Percentage of Total Budget FTEs

Justification of the FY 2004 President's Budget

In FY 2004, the Clearing and Intermediary Oversight program requests 60 FTEs, a decrease of eight FTEs from the FY 2003 budget. The requested level is necessary for the Clearing and Intermediary Oversight program to meet established responsibilities as well as the new additional responsibilities imposed by the CFMA, which will be more difficult to achieve due to the reduction of resources. The decrease of eight FTEs will be reflected in the two subprograms as follows: the Compliance and Registration subprogram will be reduced two FTEs; and the Audit and Financial Review subprogram will be reduced six FTEs.

The Clearing and Intermediary Oversight program is responsible for:

- Oversight of programs of DCOs, SROs, and RFAs to assure their members' compliance with their rules;
- Encouragement of SRO programs that seek to focus on areas of greatest risk, including off-exchange transactions, commodity pools trading as hedge funds, and traders with large speculative positions;
- Development of an effective, flexible regulatory environment responsive to evolving market conditions;
- Development of rules to foster financially sound markets;
- Development of rules to protect market users and financial intermediaries, including requirements related to registration, fitness, financial adequacy, sales practice activities, the protection of customer funds, and clearance and settlement activities; and
- Development of rules and policies to address cross-border transactions, the coordination of policy with foreign market authorities, systemic risk, anti-money laundering programs, as well as emergency procedures to address extraordinary events, such as firm defaults.

Compliance and Registration

The Compliance and Registration subprogram will be reduced two FTEs in FY 2004 from the FY 2003 level. The decrease will make it more difficult for the Compliance and Registration subprogram to address additional responsibilities imposed by the CFMA, including: 1) coordinating with the SEC while concurrently conducting additional oversight with respect to implementation and trading of SFPs; 2) addressing ongoing regulatory issues regarding application of the multitude of new exemptions and exclusions in the CFMA with respect to trading of derivatives; 3) overseeing an increased number of RFAs; 4) overseeing and working with the Enforcement program concerning firms engaged in retail foreign currency transactions; and 5) implementing a regulatory reform initiative for intermediaries, elements of which were discussed in a required report to Congress in June 2002 concerning amendments to provisions of the CEA and Commission rules governing intermediaries. It also will be harder for the subprogram to take on responsibilities imposed by the USA PATRIOT Act, including anti-money laundering measures.

The foregoing responsibilities are in addition to and do not replace the existing responsibilities of the Compliance and Registration subprogram, which include assuring that clearing organizations, firms holding customer funds, and other industry professionals are able to compete in dynamically evolving markets without sacrificing customer protections. Rapid market and product evolution will require that existing rules be reviewed, refined, and applied in a manner that facilitates competitiveness while preserving core customer and market safeguards. The globalization of markets, the blurring of distinctions among financial institutions, and the explosive growth of technology have made it essential that the Commission adapt its rules continually and appropriately to market conditions.

As advances in information technology increasingly free markets from geographic and time-of-day constraints, resources must be allocated to reviewing and monitoring trading systems that originate both inside and outside the U.S. and that are available electronically around the world and around the clock for their impact on intermediaries. The subprogram develops rules and responds to inquiries from market professionals and the public concerning the impact of these systems on intermediaries and customer funds. Further, as other sectors of the global economy continue the process of deregulation, there will be new risks and increasing competition in those sectors among producers and consumers and a concomitant need to develop innovative price discovery and hedging instruments. Staff of this subprogram review and monitor systems developed to address these needs, particularly in an off-exchange environment and with respect to the impact on intermediaries and customer funds. They also evaluate other off-exchange products and new types of trading mechanisms.

In addition, staff continue to examine current regulations with a view towards implementing the CFMA and harmonizing existing regulations with the new legislation, enhancing the Commission's comprehensive regulatory reform program initiated in FY 2000. The subprogram also will be involved in supporting the Commission's coordinated efforts with other domestic and foreign financial regulators to achieve harmonized regulatory standards.

Compliance and Registration subprogram staff will also review the Commission's Part 30 rules, which govern the trading of persons located in the U.S. on futures markets located outside of the U.S. These rules have been in place for 15 years, and staff believe that, given the changes in the domestic and international regulatory frameworks during that time, it is now appropriate to review the existing Part 30 structure. In addition to reviewing the rules, an examination of previous orders and exemptions issued under Part 30 will be undertaken to assure that the

Commission provides a flexible structure that maintains opportunities for U.S. competitiveness in a growing global marketplace.

The subprogram is committed to carrying out all of the foregoing activities, but the decrease in resources may cause a delay in fulfilling certain functions. The subprogram will look for ways to make greater use of information technology to compensate for the decrease in FTEs.

Audit and Financial Review

The Audit and Financial Review subprogram will be reduced by six FTEs in FY 2004 from the FY 2003 level. The decrease in resources will impair to some extent the Audit and Financial Review subprogram's ability to continue to assure the financial integrity of individual registrants and the markets generally and to improve SRO programs.

The subprogram staff has the additional responsibility of implementing CFMA provisions governing registration of DCOs, oversight of the operations and activities of DCOs, and enforcement of compliance by DCOs with core principles and other provisions of the CEA and Commission rules. The subprogram also will take on responsibilities concerning the regulation and review of broad-based stock-index futures and SFP margin. However, with a decrease in staff resources, the breadth of coverage will be diminished.

Faced with a decrease in resources in FY 2004, the subprogram staff will continue to explore technological advancements that will provide for more efficient monitoring of the financial condition of the markets and market participants. In this area, the staff seeks to expand and improve the utility of RSR Express, the Clearing and Intermediary Oversight program's electronic filing and financial statement monitoring software for FCMs. Staff also will continue developing a software program called SPARK, which will allow staff to perform stress tests of firm and customer positions.

Prior to the passage of the CFMA, Commission staff performed reviews of clearing organization operations as part of the review of contract market financial surveillance programs. Generally, these reviews focused on the clearing organization's proper segregation of customer funds and compliance with Commission record-keeping rules. The CFMA provides that DCOs may clear for regulated markets and for OTC transactions. The program's priority is the development and implementation of a comprehensive DCO oversight program that is capable of: 1) identifying, measuring, monitoring, and controlling financial risks to which the DCOs and their clearing members are exposed; and 2) evaluating the DCOs' and clearing members' own risk management programs. The design of this program element would be enhanced by the skills of an experienced risk management expert. If the Audit and Financial Review subprogram is unable to obtain an experienced risk management expert, the subprogram would have to look to other Commission resources to achieve this purpose.

The CFMA provides for the registration of DCOs separate from the registration of contract markets. The CFMA further authorizes DCOs to clear OTC transactions. Commission rules provide that applicants for DCO registration are deemed registered 60 days after submission of the application unless notified otherwise. Therefore, these applications require immediate attention from program staff who are experienced and knowledgeable in DCO operations. If there is a large number of these applications, staff would be pressed to carry out these new responsibilities and maintain other program elements.

The increasing globalization of financial markets and the proliferation of instruments requires the Commission to balance the activities of assisting firms in achieving greater competitiveness with anticipating potential financial threats. Subprogram staff will continue to explore pro-competitive measures while attempting to provide necessary resources to oversight functions to ensure that the goals of systemic financial integrity, individual registrant integrity, and customer protection are met. The reduced level of resources will require increased staff efforts to improve efficiency and effectiveness, such as the expansion of computer-based data-gathering capacity that would result in a less burdensome, more efficient process for analyzing financial data. As the Commission moves from a direct regulatory posture to an oversight posture, such capacity will be critical, but achieving it may be delayed as a result of the reduction in staff resources.

Impact of Reduced Level of Resources

The Clearing and Intermediary Oversight program is committed to maintaining an effective regulatory system responsive to technological development, business changes, and evolution of the markets and the clearing process. However, the reduced level of resources will make it more difficult for the Clearing and Intermediary Oversight program to meet the new and increased responsibilities imposed upon it by the CFMA and to keep pace with the rapid growth in futures and options trading volume and the profound changes resulting from new clearing organizations, advances in technology, and new market practices.

The reduced level of resources will hinder the ability of the program to provide guidance to industry professionals, customers, and other market users regarding how to comply with an increasingly changing business and regulatory environment as promptly as would be the case if resources were not reduced. Not responding promptly to these inquiries may delay innovation and restrict financial market growth, and it may also burden the international competitiveness of U.S.-based clearing organizations and intermediaries with regulatory inefficiencies and outmoded regulatory structures.

The Clearing and Intermediary Oversight program also will be pressed to maintain its current level of oversight activity given the decrease in resources. In particular, the program will may not be able to review as quickly the applications of persons seeking to become registered DCOs and RFAs. Further, the program's ability to develop and implement the Commission's oversight program to monitor DCOs and RFAs will be hindered. The reduction in staff resources also will limit the level of oversight of SROs with respect to intermediaries and clearing operations and other compliance and investigative activities performed by staff.

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Table 7: Clearing & Intermediary Oversight Request by Subprogram

	FY 2003		FY 2004		Change	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
Compliance & Registration	\$2,017	16.00	\$2,159	14.00	\$142	-2.00
Audit & Financial Review	7,788	52.00	8,513	46.00	725	-6.00
TOTAL	\$9,805	68.00	\$10,672	60.00	\$867	-8.00

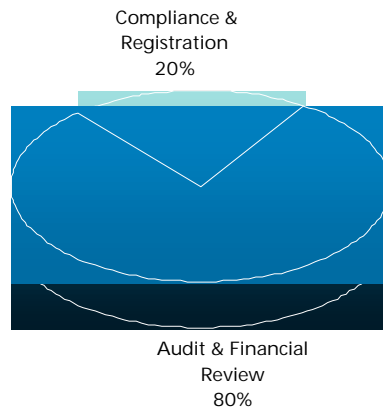


Figure 10: Clearing & Intermediary Oversight FY 2004 Budget Dollars by Subprogram

FY 2004 President's Budget

Table 8: Clearing & Intermediary Oversight Request by Goal

	FY 2003		FY 2004		Change	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcome Objectives						
1.1 Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	\$376	2.50	\$464	1.50	\$88	-1.00
1.2 Oversee markets which can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.	201	1.50	247	1.50	\$46	0.00
Subtotal Goal One	\$577	4.00	\$711	3.00	\$134	-1.00
GOAL TWO: Protect market users and the public.						
Outcome Objectives						
2.1 Promote compliance with and deter violations of federal commodities laws.	\$814	5.50	1,006	5.50	\$192	0.00
2.2 Require commodities professionals to meet high standards.	\$1,367	9.50	1,686	9.50	319	0.00
Subtotal Goal Two	\$2,181	15.00	\$2,692	15.00	\$511	0.00
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcome Objectives						
3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds	\$1,379	9.50	1,532	8.50	\$153	-1.00
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	4,008	27.00	4,039	22.00	31	-5.00
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	1,660	12.50	1,698	10.50	38	-2.00
3.4 Promote markets free of trade practice abuses.	0	0.00	0	0.00	0	0.00
Subtotal Goal Three	\$7,047	49.00	\$7,269	41.00	\$222	-8.00
TOTAL	\$9,805	68.00	\$10,672	59.00	\$867	-9.00

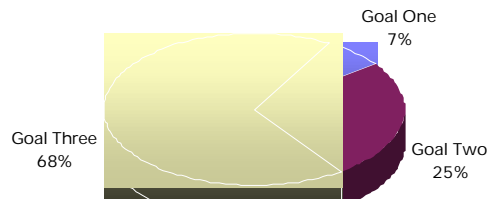


Figure 11: Clearing & Intermediary Oversight FY 2004 Budget Dollars by Goal

Enforcement

Total Budget:	\$26,341,000	143 FTEs
Total Change:	\$ 4,072,000	-5 FTEs

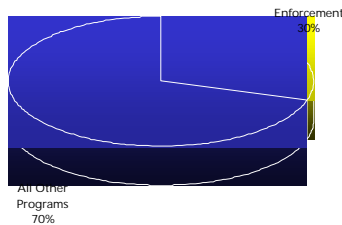


Figure 12: Enforcement Percentage of Total Budget Dollars

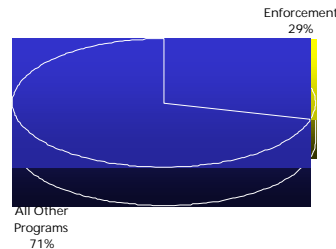


Figure 13: Enforcement Percentage of Total Budget FTEs

Justification of the FY 2004 President's Budget

The primary responsibility of the Enforcement program is to police futures markets for conduct that violates the CEA and Commission regulations. Such conduct undermines the integrity of the markets and the confidence of market participants.

In FY 2004, the Enforcement program has requested 143 FTEs, a decrease of five FTEs from the FY 2003 budget. This decrease in FTEs will challenge the Enforcement program's capacity to address the following developments:

- Trading strategies have become more complex, crossing product lines and markets, which has required the Enforcement program to expand the scope of its investigations concerning fraud, market manipulation, and other abusive trading practices. A striking example is the program's intensive investigation into Enron and other energy-related market abuses. The Enforcement program is deploying significantly more resources in these investigations than it has historically in order to analyze voluminous trading data and to examine the roles of diverse market participants and practices.
- The USA PATRIOT Act and anti-money laundering regulations are creating additional responsibilities for the Enforcement program arising from new transaction reporting requirements and the establishment of anti-money laundering and customer identification and verification programs by registered firms.
- The Enforcement program continues to battle the pervasive fraudulent sale of illegal, off-exchange forex contracts to retail customers using its clarified authority under the CFMA. The Enforcement program also continues to focus resources on stopping the prevalent problem of fraud by unregistered pool operators. Both types of matters require immediate action using the En-

forcement program's "quick strike" capability to freeze assets and preserve books and records.

- Violative Internet solicitations continue to increase and, therefore, require additional resources to investigate and prosecute.

Responding to Violative Conduct

When enforcement investigations indicate that violative conduct has occurred, the Commission files either administrative or civil injunctive enforcement actions against alleged wrongdoers. In administrative actions, wrongdoers found to have violated the CEA or Commission regulations or orders can be prohibited from trading and, if registered, have their registrations suspended or revoked. Violators also can be ordered to cease and desist from further violations, to pay civil monetary penalties of up to \$120,000 per violation or triple their monetary gain, and to pay restitution to those persons harmed by the misconduct. In civil injunctive actions, defendants can be enjoined from further violations, their assets can be frozen, and their books and records can be impounded. Defendants also can be ordered to disgorge all illegally obtained funds, make full restitution to customers, and pay civil penalties.

The types of violations prosecuted by the Enforcement program may arise from commodity futures or option trading on U.S. exchanges or from the sale of illegal futures or option contracts not traded on trading facilities designated or registered by the Commission. Enforcement actions can be brought against individuals and firms registered or required to be registered with the Commission, persons or firms engaged in unlawful commodity futures and option trading on exchanges, and anyone involved in the sale of illegal futures and option contracts.

The Enforcement program addresses various types of violative conduct that threaten the economic functions of the commodity futures and option markets. For example, one function of the futures markets is to provide an accurate reflection of commodity prices based on legitimate supply and demand forces—in other words, to provide a price discovery mechanism. Therefore, the markets must remain free of fraud, manipulation, and abusive trade practices that undermine this price discovery function. As a result, one aspect of the responsibility of the Enforcement program is to investigate and bring enforcement actions against possible manipulation and illegal trade practices by market participants. Through these actions, the Commission can remove threats to the market by imposing trading prohibitions and registration revocations on abusive traders. These cases are often highly complex and labor intensive because they require staff to reconstruct transactions and analyze complex trading strategies, as is occurring, for example, in the Enron and other energy-related investigations.

Protecting Market Users

The Enforcement program also works to protect market users and the public by promoting compliance with and deterring violations of the CEA and Commission regulations. The bulk of the work in this area involves investigating and bringing enforcement actions in matters involving fraud and imposing sanctions against wrongdoers. These actions send a message to industry professionals about the kinds of conduct that will not be tolerated. These actions also seek to protect the funds of market participants, both large and small.

The Enforcement program pursues actions involving various types of fraudulent conduct. For example, it pursues fraud cases against unregistered CPOs and CTAs who provide trading advice—often the small investor's first avenue into the markets. These cases frequently involve misappropriation from victims who have pre-existing business, social, religious, or ethnic ties to the defendants.

The Commission also pursues actions involving false or misleading advertising. Over the past several years, there has been substantial false and deceptive advertising of commodity-related investment products, often by unregistered persons and entities through various forms of mass media, such as cable television, radio, and the Internet. The Enforcement program has worked aggressively to detect and put a stop to such advertising by filing enforcement actions. Similarly, the Enforcement program pursues cases charging illegal futures and options, often in forex and precious metals. Such cases typically involve unregistered "boiler rooms" selling illegal futures contracts and options to the general public. Again, the most likely victims are individual retail investors.

Quick-Strike Capability

The Enforcement program uses its quick-strike capability effectively to prosecute those engaged in ongoing fraud where customer funds are at risk. In quick-strike cases, the Enforcement program prosecutes civil injunctive actions against wrongdoers as soon as possible after violative conduct is detected. The goal is to obtain injunctive relief rapidly, thereby preserving customer funds and preventing the destruction of records that may prove wrongdoing and/or identify customer funds. When possible, cases are brought to obtain injunctive relief within days of the time the wrongdoing is detected.

Supervision and Compliance Failures

The Enforcement program also investigates and prosecutes cases involving supervision and compliance failures by registrants handling customer business. Such violations can threaten the financial integrity of registered firms holding customer funds and can, in certain circumstances, threaten the financial integrity of clearing organizations. In addition, without adequate supervision and compliance systems in place, customers remain vulnerable to fraud, including misallocation of trades and unauthorized trading. Diligent supervision by registered firms also protects markets from abusive trading practices, including manipulation and wash sales.

Under the USA PATRIOT Act, the Enforcement program expects to have additional responsibilities for ensuring that registrants have proper supervision and record-keeping programs in place to fight money laundering. Cases alleging supervision and compliance failures can result in substantial remedial changes in the supervisory structures and systems of large FCMs. These cases have had a significant impact on the way particular firms are required to do business and are an important part of the responsibility of the Commission to ensure sound practices by registered firms.

Cooperative Enforcement Efforts

The Enforcement program works cooperatively with both domestic and foreign authorities to maximize its ability to detect, deter, and bring sanctions against wrongdoers involving U.S. markets, registrants, and customers. The benefits of cooperative enforcement include:

- Use of resources available from other authorities to support Commission enforcement actions;
- Coordination of the filing of actions with other authorities to further the impact of enforcement efforts; and
- Enhancement of the consistency and clarity of governmental responses to misconduct and avoidance of duplication of efforts by authorities.

On the domestic level, this includes sharing information with, and on occasion providing testimony or other assistance to, state regulators and other Federal agencies, such as the U.S. Department of Justice (DOJ), the Federal Bureau of Investigation (FBI), the SEC, the Federal Energy Regulatory Commission (FERC), and Federal banking regulators. The Commission may also file injunctive actions jointly with state authorities with concurrent jurisdiction. These cooperative efforts bolster the effectiveness of the Enforcement program by allowing it to investigate and litigate more efficiently.

Similarly, in the international realm, the Commission has entered into more than a dozen formal information-sharing arrangements and numerous other informal arrangements with foreign authorities. These arrangements permit information sharing and cooperative assistance among regulators. Such arrangements benefit all nations involved and greatly enhance the ability of the Enforcement program to investigate matters that involve either foreign entities and/or individuals or transfers of tainted funds to foreign individuals. (See *Working Relationships* for a fuller discussion of cooperative enforcement efforts.)

Impact of Reduced Level of Resources

The markets continue to grow in volume and complexity as increasingly sophisticated instruments are being employed across markets. An ever-larger segment of the population has money at risk in the futures markets, either directly or indirectly through pension funds or ownership of shares in publicly held companies that participate in the markets. Moreover, the markets continue to provide a price-basing function for transactions in interstate commerce. The growing globalization of futures markets presents new challenges for the Enforcement program and new demands on its resources. The ability of the Enforcement program to institute enforcement cases serves as a powerful deterrent, discouraging wrongdoers and engendering confidence in the markets.

The Enforcement program's five fewer FTEs requested for FY 2004 will create challenges for the program in light of its growing responsibilities, as discussed above. This decrease in resource level has the potential to: 1) cause the Enforcement program to selectively limit the number of matters it investigates; 2) undermine cooperative enforcement activities; and 3) require restrictions in staff training opportunities.

Consequences of Not Receiving Requested Level of Resources

In recent years, the Enforcement program has been striving to process matters more quickly in order to be able to address as wide a range of potential violations as possible. One of the cornerstones of effective enforcement is the program's ability to pursue significant violations of all types, whether they result in large, complex market investigations and cases or discrete retail fraud matters. Adequate staffing levels give the Enforcement program the flexibility to address conduct that gives rise to complex investigations and litigation as well as conduct, which, though equally serious, may not require the same resources to address effectively.

Without adequate staffing, the Enforcement program must be more selective in the matters it investigates, potentially leaving serious wrongdoing, like the ongoing energy-related manipulation and trade practice matters, unaddressed. In addition, investigations will take longer to complete, particularly when priority litigation needs draw resources away from investigations. Emergency enforcement actions to address ongoing fraud may be delayed or may draw staff from other pending matters, thereby interfering with the timely completion of complex investigations and cases. Domestic and international cooperative enforcement ac-

tivities may be undermined, adversely affecting not only the mission of the Commission, but also that of its domestic and international counterparts. With insufficient staff, the Enforcement program's ability to target certain problem areas, such as retail fraud, will be limited. The Commission's Enforcement program also will be unable to maintain the training required of a nationwide enforcement program.

If the Enforcement program is unable to bring actions because of insufficient resources, other authorities may not be available to step in and fill the void. SROs can take action only against their own members, and their sanctions cannot affect conduct outside their jurisdiction or markets. In addition, other Federal regulators and state regulators have limited jurisdiction and expertise handling futures-related misconduct. Finally, while criminal prosecutions by the DOJ are an important adjunct to effective enforcement of the CEA, the criminal justice system is not an adequate substitute for aggressive civil regulatory enforcement. The staff level requested for FY 2004 is the absolute minimum that the Commission believes necessary to meet its enforcement responsibilities.

Table 9: Enforcement Request

	FY 2003		FY 2004		Change	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
Enforcement	\$22,269	148.00	\$26,341	143.00	\$4,072	-5.00
TOTAL	\$22,269	148.00	\$26,341	143.00	\$4,072	-5.00

FY 2004 President's Budget

Table 10: Enforcement Request by Goal

	FY 2003		FY 2004		Change	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcome Objectives						
1.1 Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	\$3,561	23.66	\$7,902	42.90	\$4,341	19.24
Subtotal Goal One	\$3,561	23.66	\$7,902	42.90	\$4,341	19.24
GOAL TWO: Protect market users and the public.						
Outcome Objectives						
2.1 Promote compliance with and deter violations of federal commodities laws.	\$15,134	100.56	\$15,701	85.24	\$568	-15.32
2.2 Require commodities professionals to meet high standards.	75	0.50	104	0.56	28	0.06
Subtotal Goal Two	\$15,209	101.06	\$15,805	85.80	\$596	-15.26
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcome Objectives						
3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds.	\$1,615	10.73	\$1,584	8.60	-\$31	-2.13
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	20	0.16	29	0.16	9	0.00
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	203	1.35	356	1.93	153	0.58
3.4 Promote markets free of trade practice abuses.	1,661	11.04	665	3.61	-996	-7.43
Subtotal Goal Three	\$3,499	23.28	\$2,634	14.30	-\$865	-8.98
TOTAL	\$22,269	148.00	\$26,341	143.00	\$4,072	-5.00

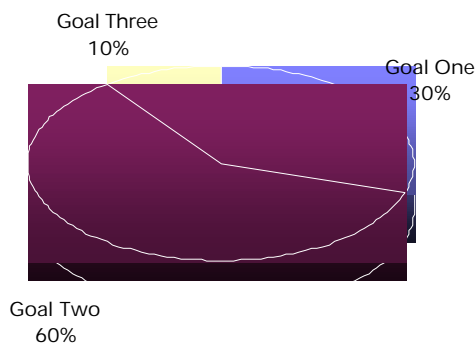


Figure 14: Enforcement FY 2004 Budget Dollars by Goal

Office of the Chief Economist

Total Budget:	\$ 1,415,000	8 FTEs
Total Change:	\$ 21,000	-1 FTE

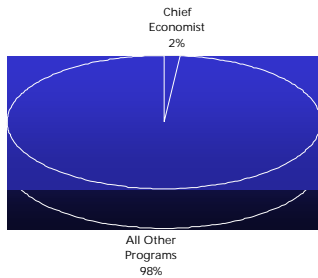


Figure 15: Chief Economist
Percentage of Total Budget Dollars

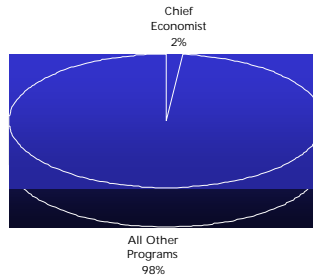


Figure 16: Chief Economist
Percentage of Total Budget FTEs

Justification of the FY 2004 President's Budget

As innovation in the futures and option markets continues, the ability of staff to conduct thorough market research is vital to achieving Commission goals. Innovations in technology and trading instruments and methods create significant challenges that require economic research in the form of:

- Participation in the development of flexible and effective regulatory responses to evolving market conditions;
- Review and analysis of new market structures and off-exchange derivative instruments over which the Commission may have jurisdictional authority;
- Frequent support to the Commission's Enforcement program in the form of economic and statistical analysis or expert testimony to promote compliance with and deter violations of commodity laws;
- Development of educational materials on futures and option trading for dissemination to producers, market users, and the general public; and
- Review and analysis of alternative derivative risk management models and risk-based capital requirement rules.

In FY 2004, the Office of the Chief Economist requests eight FTEs, which is one FTE below the FY 2003 level.

Impact of Reduced Level of Resources

The growth in the number of different types of markets that trade a wider array of derivatives products, particularly single-stock futures, requires analysis and research about new developments in derivatives trading. In FY 2004, the Office of the Chief Economist staff will be required to monitor a large and diverse array of markets, including single-stock futures. The Commission anticipates that a large number of these contracts will be listed for trading, both on futures and securities exchanges.

With a reduced level of resources, studies to enhance understanding of the markets will be just commensurate with the growth in new types of exchanges and the initiation of trading in new products. Moreover, at the reduced level, the staff would be less able to monitor most developments in derivatives trading and market innovations. In this regard, innovations in technology and derivative instruments and trading methods in futures markets create many challenging economic and regulatory issues. The performance of derivative markets has a potentially large impact on the stability of international and domestic financial markets. Market research and effective monitoring of these developments help ensure that the Commission has in place sound regulatory policies to reduce systemic risk in financial markets and protect the economic function of the markets without undermining innovation and the development of new approaches to risk management.

Consequence of Not Receiving Requested Level of Resources

If the Commission does not receive the resources requested for FY 2004, the extent of its market research and analysis will not be commensurate with the growth in new types of exchanges, new trading execution methods in futures markets, and the initiation of trading in new products, such as single-stock futures. Moreover, staff efforts to monitor developments in derivatives trading and market innovation would be delayed. This would undermine the ability of the Commission to keep its regulatory policies in line with new developments in the industry, which could impede innovation, lead to systemic risk in financial markets, and adversely affect the economic function of the markets.

Table 11: Office of the Chief Economist Request

	FY 2003		FY 2004		Change	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
Chief Economist	\$1,394	9.00	\$1,415	8.00	\$21	-1.00
TOTAL	\$1,394	9.00	\$1,415	8.00	\$21	-1.00

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Table 12: Office of the Chief Economist Request by Goal

	FY 2003		FY 2004		Change	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcome Objectives						
1.1 Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	\$0	0.00	\$0	0.00	\$0	0.00
1.2 Oversee markets which can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.	1,239	8.00	1,274	7.20	34	-0.80
Subtotal Goal One	\$1,239	8.00	\$1,274	7.20	\$34	-0.80
GOAL TWO: Protect market users and the public.						
None.						
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcome Objectives						
3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds.	\$0	0.00	\$0	0.00	\$0	0.00
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	0	0.00	0	0.00	0	0.00
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	155	1.00	142	0.80	-13	-0.20
3.4 Promote markets free of trade practice abuses.	0	0.00	0	0.00	0	0.00
Subtotal Goal Three	\$155	1.00	\$142	0.80	-\$13	-0.20
TOTAL	\$1,394	9.00	\$1,415	8.00	\$21	-1.00

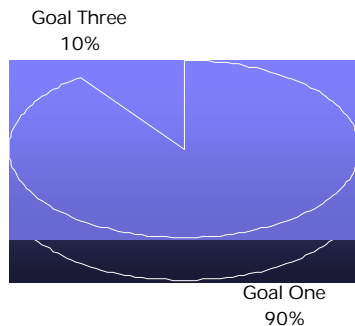


Figure 17: Office of the Chief Economist FY 2004 Budget Dollars by Goal

Office of Proceedings

Total Budget:	\$ 2,585,000	14 FTEs
Total Change:	\$ 320,000	-1 FTE

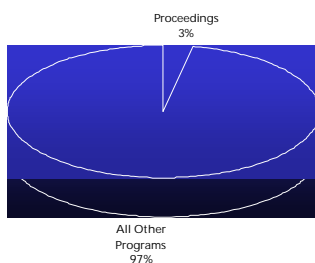


Figure 18: Proceedings Percentage of Total Budget Dollars

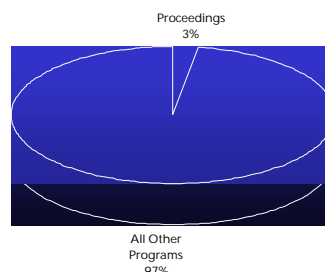


Figure 19: Proceedings Percentage of Total Budget FTEs

Justification of the FY 2004 President's Budget

The Office of Proceedings is responsible for providing an inexpensive, impartial, and expeditious forum for handling customer complaints against persons or firms registered under the CEA. In FY 2004, the Office of Proceedings is requesting 14 FTEs—a decrease of one FTE from the FY 2003 level.

The Complaints section of the Office of Proceedings receives and prepares customer claims for action by appropriate officials, dismissing those that are outside the jurisdiction of the Commission or are pending in another forum. The Hearings section includes judgment officers (JOs) who decide reparations complaints in voluntary and summary proceedings and administrative law judges (ALJs) who conduct formal proceedings.

The ALJs also decide administrative enforcement cases brought by the Commission against persons or firms responsible for violating the CEA or Commission regulations. The Office of Proceedings expects to carryover 20 administrative enforcement cases into FY 2004. This projection is based on estimates that 27 cases will be filed and 27 cases will be resolved.

The Office of Proceedings expects to carryover 64 reparations cases into FY 2004. This projection is based on estimates that 112 cases will be filed and 100 cases will be disposed of, leaving a balance of 87 reparations cases—23 cases in the Complaints section and 64 cases in the Hearings section.

In response to over 12,000 telephone inquiries each year, the Office of Proceedings also provides information about the complaints process and the number of complaints filed against specific firms. Many inquiries are from members of the public who are considering investing with these firms.

The Office of Proceedings maintains a case-tracking system that tracks the progress of each case from receipt of complaint through disposition, including any appeal to the Commission or Federal court. The case-tracking system not only assists with case management within the CFTC, but it also enables the Office of

Proceedings to provide current information on the status of cases in response to public inquiries.

The Office of Proceedings maintains the *Reparations Sanctions in Effect List* publication, a record of individuals and firms that have not paid reparations awards. This document is published annually and updated twice a month. The office also maintains the *Administrative Sanctions in Effect List* publication, a record of individuals and firms that have enforcement sanctions, such as trading prohibitions, outstanding against them. This document is published annually and updated quarterly. These lists are made available to the public and are distributed to the exchanges, the NFA, the FIA, the National Association of Securities Dealers, and the SEC for use in their compliance efforts.

Consequence of Not Receiving Requested Level of Resources

The Office of Proceedings' ability to perform its activities in a timely fashion depends on the requested level. If the requested level is not received, the Office of Proceedings may experience time delays in the performance of its activities. For example, there may be time delays in: 1) reviewing and processing reparations complaints; 2) responding to requests for information from the public; 3) processing orders and decisions of the Commission in administrative enforcement and reparation cases; and 4) processing incoming documents and serving orders and decisions issued by ALJs and JOs in reparation cases.

Table 13: Proceedings Request by Subprogram

	FY 2003		FY 2004		Change	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
Enforcement	\$604	4.00	\$739	4.00	\$135	0.00
Reparations	1,661	11.00	1,846	10.00	185	-1.00
TOTAL	\$2,265	15.00	\$2,585	14.00	\$320	-1.00

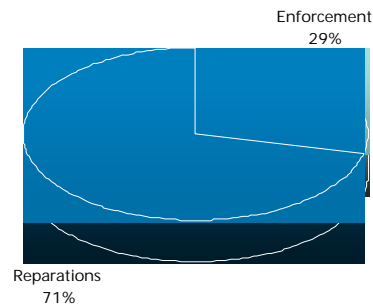


Figure 20: Proceedings FY 2004 Budget Dollars by Subprogram

FY 2004 President's Budget

Table 14: Proceedings Request by Goal

	FY 2003		FY 2004		Change	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
None						
GOAL TWO: Protect market users and the public.						
Outcome Objectives						
2.1 Promote compliance with and deter violations of federal commodities laws.	\$906	6.00	\$1,108	6.00	\$202	0.00
2.2 Require commodities professionals to meet high standards.	76	0.50	92	0.50	16	0.00
2.3 Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Act.	1,132	7.50	1,200	6.50	68	-1.00
Subtotal Goal Two	\$2,114	14.00	\$2,400	13.00	\$ 286	-1.00
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcome Objectives						
3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds	\$0	0.00	\$0	0.00	\$0	0.00
3.4 Promote markets free of trade practice abuses.	151	1.00	185	1.00	34	0.00
Subtotal Goal Three	\$151	1.00	\$185	1.00	\$34	0.00
TOTAL	\$2,265	15.00	\$2,585	14.00	\$320	-1.00

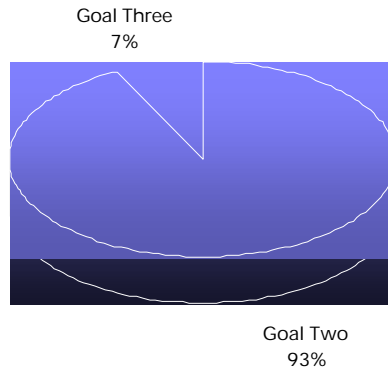


Figure 21: Proceedings FY 2004 Budget Dollars by Goal

Office of the General Counsel

Total Budget: \$ 6,121,000 30 FTEs
Total Change: \$ 1,130,000 0 FTEs

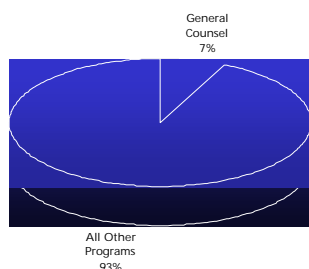


Figure 22: Percentage of Total Budget Dollars

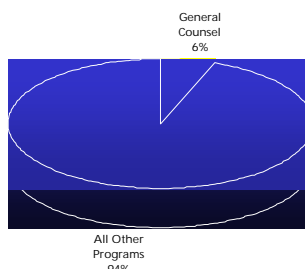


Figure 23: Percentage of Total Budget FTEs

Justification of the FY 2004 President's Budget

The Office of the General Counsel (OGC) provides legal services and support to the Commission and its programs. These services include engaging in defensive, appellate, and *amicus curiae* litigation; assisting the Commission in the performance of its adjudicatory functions; providing legal advice and support for Commission programs; drafting regulations; interpreting the CEA; providing advice on legislative issues; and providing exemptive, interpretive, and no-action letters and opinions to the public. OGC requests 30 FTEs for FY 2004—no change from FY 2003 level.

OGC is the legal advisor to the Commission, and a large portion of its workload is reactive in nature. The office:

- Reviews all substantive regulatory, legislative, and administrative matters presented to the Commission and advises it on the application and interpretation of the CEA and other pertinent, administrative, and legislative issues;
- Assists the Commission in performing its adjudicatory functions through its Opinions Program;
- Represents the Commission in appellate litigation and certain trial-level cases, including bankruptcy cases involving futures industry professionals;
- Provides legal support to Commission administrative programs, such as compliance with the Freedom of Information, Privacy, Government in the Sunshine, Regulatory Flexibility, Paperwork Reduction, and Federal Advisory Committee Acts;
- Monitors proposed legislation affecting the Commission and prepares draft legislation as requested by members of Congress or their staff and provides liaison with other Federal financial regulators as necessary on specific projects;
- Provides Commission support to the PWG;

FY 2004 President's Budget

- Counsels other Commission staff on legal aspects of various issues arising during the course of Commission business;
- Provides written interpretations of Commission statutory and regulatory authority to members of the public and provides, where appropriate, exemptive, interpretive, or no-action letters to regulatees and potential regulatees of the Commission;
- Advises the Commission on personnel, labor, and employment law matters, including cases arising under Title VII of the Civil Rights Act of 1964 and Merit Protection Board cases arising under the Civil Service Reform Act of 1978; and
- Advises the Commission with respect to all matters related to the Commission's ethics standards and compliance with its Code of Conduct as well as with governmentwide ethics regulations promulgated by the Office of Government Ethics, including the requirement of annual ethics training for Commission employees.

New Responsibilities

As a result of: 1) the passage of the CFMA and the USA PATRIOT Act; 2) the controversial trading practices in the energy markets; and 3) the reorganization of some responsibilities within the Commission, OGC will be undertaking responsibilities in several new areas as described below:

Gramm-Leach-Bliley Act

OGC will be involved in activity arising from Congress' passage of the GLBA, which facilitates the modernization of financial services. Among other things, the GLBA: 1) repeals Depression-era restrictions on affiliations among banks, securities firms, and insurance companies; 2) establishes parameters for conducting non-banking business within banks; and 3) reinforces the obligation of each financial institution to respect the privacy of its customers. As a Federal financial regulator under the GLBA, the Commission has adopted rules drafted by OGC that implement the privacy provisions of that Act and began participating with the other financial regulators in numerous projects and studies, including but not limited to a privacy study mandated by the GLBA and committees of financial regulators addressing the relationship between U.S. financial privacy regulations and those adopted by the European Union. OGC has adopted a proactive role in these projects and has continued to provide interpretive guidance to the industry and the bar on financial privacy issues.

Ethics

OGC, which is responsible for all matters relating to the Commission's ethics standards and compliance with its Code of Conduct and the Office of Government Ethics governmentwide ethics regulations, will be taking on new responsibilities in this area. Beginning in FY 2003, OGC will also assume full responsibility for reviewing and certifying the confidential financial disclosure reports of approximately 365 Commission employees. Assumption of this function, previously the responsibility of the Office of Human Resources (OHR), will contribute to an increased workload for OGC, including intensive training of staff and allocation of significant staff time to the review of these reports. In addition to this new responsibility, OGC will continue to: 1) provide annual ethics training; 2) review and certify public financial disclosure reports; 3) counsel CFTC personnel regarding ethics standards and programs; 4) advise departing and former CFTC officials on post-employment conflict of interest responsibilities; and 5) administer a system for periodic evaluation of the ethics program.

USA PATRIOT Act

Title III of the USA PATRIOT Act, amending the Bank Secrecy Act, imposes a number of new anti-money laundering requirements on all financial institutions, including CPOs, CTAs, IBs, and FCMs registered or required to be registered with the Commission. Although the U.S. Treasury Department has the lead authority under the Bank Secrecy Act to develop regulations to implement those requirements, the Commission will be actively participating in the rulemaking process. OGC is working closely with the U.S. Treasury Department, other financial regulators, and interested parties to ensure that regulations do not place Commission registrants at a disadvantage relative to other financial service providers.

Federal Energy Regulatory Commission

Recent concerns relating to the use of energy derivative products in the markets for natural gas and electricity have resulted in increased regulatory and enforcement activity in this area by the Commission and the FERC, the Federal agency that regulates the Nation's wholesale power markets. The Commission's involvement derives from its role as regulatory overseer of the commodity futures and option trading exchanges and the increasing use of energy derivative contracts by firms that trade in these markets. As a result of recent allegations of possible trading abuses and manipulation by some energy traders, the Commission is working closely with FERC to coordinate the agencies' law enforcement and regulatory efforts. In order for OGC to properly advise the Commission and carry out new responsibilities in this area, it will be necessary to add legal resources to the office with appropriate expertise in the area of Federal energy regulation.

Antitrust Concerns

In addition to its ongoing responsibility to advise the Commission regarding the antitrust and competitive implications of its actions, OGC's advisory role will likely expand from the CFMA's inclusion of the core principles relating to DCOs and the criteria for designation of boards of trade as contract markets. In particular, the CFMA requires the avoidance of "any material anticompetitive burden on trading" in contract markets. Also, the CFMA authorizes the Commission at the request of a DCO to issue an order concerning whether a rule or practice of the DCO is the "least anti-competitive means" of achieving the Act's objectives. OGC will increasingly devote resources to antitrust considerations in light of these additional responsibilities imposed by the CFMA.

Securities Law

As the Commission continues to implement and administer its regulatory program for single-stock futures and other final rules related to SFPs, OGC will have a continuing need to develop expertise with regard to the application of the securities laws and related rules to these jointly regulated products. This need has taken on greater relevance in light of the applicability of both Commission and SEC customer protection, record-keeping, reporting and bankruptcy rules, and the Securities Investor Protection Act of 1970 to accounts holding SFPs.

Consequence of Not Receiving Requested Level of Resources

As a result of not receiving requested resource levels, OGC may experience time delays in performing its activities. For example, there may be time delays in:

- Performing its critical review function with respect to contract market designation applications and rule changes;
- Reviewing proposed enforcement actions;
- Assisting the Commission in the performance of its adjudicatory functions;

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- Analyzing legislation and proposed legislation affecting the Commission;
- Carrying out its responsibilities to defend the Commission in appellate and other litigation; and
- Assisting the Commission in personnel, labor, and employment law matters.

Moreover, a reduction in the requested level of resources may have an adverse impact on the ability of OGC to provide general legal advice and assistance to the Commission. The office may also experience difficulty in fulfilling its advisory role to the Commission in connection with international cooperative efforts and in the provision of exemptive, interpretive, or no-action relief. Such an outcome would have a direct and negative impact on the development of effective and timely responses to evolving market conditions.

The contribution of OGC to the goals and outcome objectives of the Commission is significant. The impact of not receiving the requested levels of resources may be felt broadly, adversely affecting or completely impairing the Commission's ability to:

- Enforce the high standards for futures industry professionals mandated by Congress;
- Remain abreast of the rapid changes in the futures markets, resulting in regulatory impediments to private sector innovation;
- Enforce vigorously its consumer protection programs;
- Respond quickly to innovative off-exchange activities; and
- Deal effectively with market emergencies.

Many deadlines governing the litigation program are imposed by courts or other tribunals and are mandatory. The failure to adhere to such deadlines exposes the Commission to adverse decisions and potential sanctions, including monetary sanctions by courts or other tribunals. Other specific effects of a reduced level of resources in OGC might include a developing backlog of Commission adjudicatory cases; a curtailment of the *amicus curiae* program; a reduction in assistance to foreign governments as well as in cooperative efforts between the Commission and other government agencies; and time delays in performing advisory and review functions in all areas.

Table 15: General Counsel Request

	FY 2003		FY 2004		Change	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
General Counsel	\$4,991	30.00	\$6,121	30.00	\$1,130	0.00
TOTAL	\$4,991	30.00	\$6,121	30.00	\$1,130	0.00

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Table 16: General Counsel Request by Goal

	FY 2003 \$ (000)	FTE	FY 2004 \$ (000)	FTE	Change \$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcome Objectives						
1.1 Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	\$952	5.72	\$1,167	5.72	\$215	0.00
1.2 Oversee markets which can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.	98	0.59	120	0.59	22	0.00
Subtotal Goal One	\$1,050	6.31	\$1,287	6.31	\$237	0.00
GOAL TWO: Protect market users and the public.						
Outcome Objectives						
2.1 Promote compliance with and deter violations of federal commodities laws.	\$1,479	8.89	\$1,814	8.89	\$335	0.00
2.2 Require commodities professionals to meet high standards.	294	1.77	361	1.77	67	0.00
2.3 Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Act.	723	4.34	887	4.34	164	0.00
Subtotal Goal Two	\$2,496	15.00	\$3,062	15.00	\$566	0.00
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcome Objectives						
3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds.	\$261	1.57	\$320	1.57	\$59	0.00
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	131	0.79	161	0.79	30	0.00
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	263	1.58	322	1.58	59	0.00
3.4 Promote markets free of trade practice abuses.	263	1.58	322	1.58	59	0.00
Subtotal Goal Three	\$918	5.52	\$1,125	5.52	\$207	0.00
Unallocated						
Unallocated & Prorated	527	3.17	647	3.17	120	0.00
Subtotal Unallocated	\$527	3.17	\$647	3.17	\$120	0.00
TOTAL	\$4,991	30.00	\$6,121	30.00	\$1,130	0.00

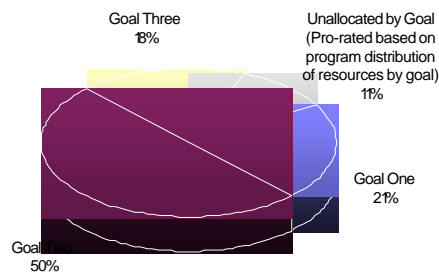


Figure 24: General Counsel FY 2004 Budget Dollars by Goal

Executive Direction & Support

Total Budget:	\$24,379,000	134 FTEs
Total Change:	\$ 1,114,000	-23 FTEs

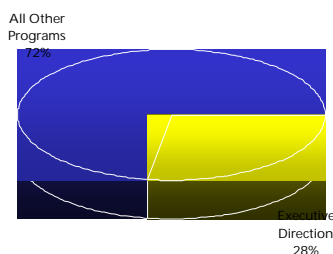


Figure 25: Percentage of Total Budget Dollars

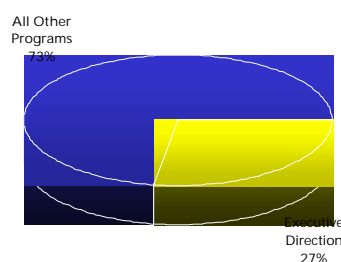


Figure 26: Percentage of Total Budget FTEs

Justification of the FY 2004 President's Budget

Agency Direction

The Commission develops and implements agency policy in furtherance of the purposes of the CEA. This policy is designed to foster the financial integrity and economic utility of commodity futures and option markets for hedging and price discovery, to conduct market and financial surveillance, and to protect the public and market participants against manipulation, fraud, and other abuses. Agency Direction is administered by the Chairman and Commissioners and includes the following offices of the Chairman: 1) External Affairs; 2) the Secretariat; 3) the Inspector General; and 4) International Affairs.

Over the past two years, the Commission has worked to implement the CFMA. The legislation, signed by President Clinton in December 2000: 1) repealed the ban on single-stock futures and implemented a regulatory framework for these instruments based on the agreement between the Commission and SEC; 2) enacted the principal provisions of the Commission's new regulatory framework; 3) brought legal certainty to bilateral and multilateral trading in OTC financial markets; 4) confirmed the CFTC's jurisdiction over certain aspects of the retail market in foreign exchange trading; and 5) gave the Commission authority to regulate clearing organizations.

Agency Direction requests a total of 44 FTEs for FY 2004, a reduction of eight FTEs as compared to the FY 2003 level.

Administrative Management and Support

Administrative Management and Support is provided by the Office of the Executive Director (OED). OED is responsible for policy development and implementation of the management and administrative functions of the CFTC. OED staff:

- Formulate budget and resource authorization strategies;
- Supervise the allocation and utilization of agency resources;
- Promote management controls and financial integrity;

- Manage administrative support offices;
- Manage the Commission's technical and information infrastructure;
- Manage human resource strategies;
- Oversee the development and implementation of the Commission's automated information systems; and
- Oversee the library services of the Commission.

In addition, the staff of OED and subordinate offices oversee agency-wide compliance with Federal requirements enacted by Congress and imposed by the OMB, the U.S. Treasury Department, the General Accounting Office (GAO), and the Office of Personnel Management (OPM). The administrative support offices include the offices of Financial Management (OFM), Information Resources Management (OIRM), Human Resources (OHR), Management Operations (OMO), and the Commission Library.

The Administrative Management and Support subprogram requests a total of 90 FTEs for FY 2004, a decrease of 15 FTEs from the FY 2003 budget level.

Impact of Reduced Level of Resources

Agency Direction

The reduced level of resources may result in a diminution in the administrative and regulatory responsiveness of the Commission. For example, public outreach, responsiveness to Congressional and public inquiries may be slower, or administrative and technical review of Commission memoranda, correspondence, or official actions, such as responding to Freedom of Information Act (FOIA) requests, may take longer. In addition, not meeting statutory deadlines associated with FOIA and other legislative mandates would cause additional workload on the appeals and litigation process for the attorneys in the General Counsel's office.

Administrative Management & Support

The reduced level of resources will significantly impact the ability of OED to support the mission of the Commission. Specifically, a reduction of 15 FTEs will hinder:

- OHR's ability to properly implement and manage pay parity, which is a time-consuming and complex process of continuously identifying the proper set of changes, developing technically correct implementation procedures, and administering a new pay program.
- OIRM's ability to: 1) modernize an antiquated trade practice monitoring and investigation system; 2) enhance the Commission's ability to provide information to the public via the Internet, a Presidential mandate; 3) support publication of information on the imposition and resolution of Commission-leveled sanctions; and 4) to maintain high quality internal infrastructure support, including operational security, network connectivity, support and maintenance of mission critical application servers, disaster recovery, telephony, network access and control.
- OFM's ability to evolve and develop a meaningful strategic planning and annual performance planning structure, which is required as a result of the passage of the CFMA; and 2) meet the President's Management Agenda goals of improved financial performance, competitive sourcing, and budget and performance integration.

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Table 17: Executive Direction & Support Request by Subprogram

	FY 2003		FY 2004		Change	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
Agency Direction	\$8,224	52.00	\$8,641	44.00	\$417	-8.00
Admin. Mgmt. & Supp.	15,041	105.00	15,738	90.00	697	-15.00
TOTAL	\$23,265	157.00	\$24,379	134.00	\$1,114	-23.00

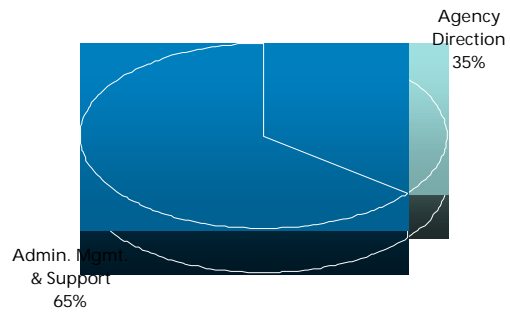


Figure 27: Executive Direction & Support FY 2004 Budget Dollars by Subprogram

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Table 18: Executive Direction & Support Request by Goal

	FY 2003		FY 2004		Change	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcome Objectives						
1.1 Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	\$1,691	11.60	\$1,974	11.04	\$282	-0.56
1.2 Oversee markets which can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.	72	0.50	489	2.80	418	2.30
Subtotal Goal One	\$1,763	12.10	\$2,463	13.84	\$700	1.74
GOAL TWO: Protect market users and the public.						
2.3 Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Act.	143	1.00	241	1.38	\$98	0.38
Subtotal Goal Two	\$143	1.00	\$241	1.38	\$98	0.38
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcome Objectives						
3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds	\$244	1.60	\$267	1.41	\$23	-0.19
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	316	2.00	535	2.81	219	0.81
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	474	3.00	589	3.00	115	0.00
3.4 Promote markets free of trade practice abuses.	359	2.50	390	2.23	31	-0.27
Subtotal Goal Three	\$1,393	9.10	\$1,781	9.45	\$388	0.35
Unallocated						
	19,966	134.80	19,894	109.33	-72	-25.47
Subtotal Unallocated	\$19,966	134.80	\$19,894	109.33	-\$72	-25.47
TOTAL	\$23,265	157.00	\$24,379	134.00	\$1,114	-23.00

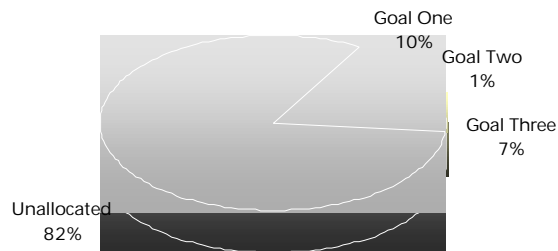


Figure 28: Executive Direction & Support FY 2004 Budget Dollars by Goal

IMPROVING EFFICIENCY & EFFECTIVENESS

Modernizing and streamlining regulations and reducing unnecessary regulatory burdens are priorities of the Commission. Some of the Commission's efforts in FY 2002 included:

Modernizing &/or Streamlining Regulations

During FY 2002, Commission staff undertook initiatives to reduce regulatory burdens. For example:

- Roundtable on Clearing Issues. In August 2002, the Commission held a roundtable discussion on clearing issues. The first session focused on the development of the Commission's oversight program for DCOs and how the Commission and industry can work together to ensure the financial integrity and stability of the futures markets and derivative transactions while providing the flexibility contemplated in the CFMA. The second session provided a forum for clearing members and exchanges and clearinghouses to discuss other clearing-related issues.
- Roundtable on CPO and CTA Issues. In September 2002, the Commission held a roundtable discussion among representatives of the CPO and CTA community, trade organizations, NFA, and the SEC to discuss issues of concern to CPOs and CTAs, including instances of overlapping regulatory jurisdiction and requirements, SFP trading, and other issues raised by the participants. The meeting provided a unique opportunity for industry representatives to have their voices heard by CFTC, SEC, and NFA representatives in a single forum.
- Registration and Other Relief for Certain CPOs and CTAs. In FY 2002, the staff of the Clearing and Intermediary Oversight program began drafting an advance notice of proposed rulemaking seeking comment on proposals from NFA and the Managed Funds Association for additional exemptions from CPO and CTA registration. In that notice, the Commission would provide for CPO registration no-action relief if a CPO: 1) operates pools that restrict participation to accredited investors, knowledgeable employees, and foreign persons; and 2) does not enter into commodity interest transactions whose aggregate notional value exceeds half of the liquidation value of a pool's portfolio. CTAs advising such pools would be eligible for similar relief. Separately, program staff began drafting amendments to Rule 4.5 that would establish an alternative test for the level of permissible non-hedge trading by regulated entities deemed not to be pools. The Commission also would provide no-action relief in the release announcing the proposed rule amendments for entities operating in compliance with the proposal.

Large Trader Reporting

During FY 2001, the Commission completed development of its reengineered market surveillance computer system by improving its operational speed, particularly in the regional offices, and by enhancing the quality of the system in a number of areas. Also in FY 2001, the Commission worked with exchanges to replace data filings on magnetic tape with earlier direct electronic transmission of daily surveillance data. In FY 2002, the Commission worked closely with industry representatives in developing the large trader reporting requirements and computer-to-computer interface specifications for SFPs. This effort also included initial testing of electronic large trader security futures transmissions. In addition,

enhancements were made to the market surveillance software and database systems in order to process SFPs and other new types of contracts.

Exchange Database System

The Commission continues to evaluate the Exchange Database System in light of its future needs, particularly emerging trading technologies and rapidly changing markets, in order to determine and implement the most appropriate means of meeting those needs. In FY 2002, the Commission focused on the maintenance requirements of its client-server environment. These tools will aid futures trading investigators in discerning patterns of trading that suggest potential violations and complex patterns of violations, particularly violations that may be facilitated by the increased use of electronic trading systems. The system will enhance the types of data maintained and the frequency and methods through which data can be accepted.

Electronic Filing and Record-keeping

At the close of FY 2002, nearly all of the approximately 170 registered FCMs file unaudited financial reports electronically with the Commission. The ability to file electronically increases registrants' efficiency and facilitates Commission staff analysis, retrieval, and storage of the data, while maintaining necessary safeguards.

- Approximately one-half of the registered FCMs are non-exchange members whose designated SRO is NFA. In FY 2002, NFA adopted rules mandating electronic filing and requiring monthly, rather than quarterly, filing of unaudited financial reports. Commission staff coordinated with NFA on implementation of PIN procedures to reduce the impact on FCMs of the transition to electronic filing.
- Over one-half of the registered FCMs also are registered with the SEC as securities broker-dealers. These firms also file financial reports electronically with their securities-side regulator. The firms are able to download the securities-side electronic filing into the Commission's electronic filing software, thus eliminating the duplicative burden of entering the financial report data to multiple forms.
- One of the benefits of receiving financial reports electronically is the ease of gathering and compiling data. To that end, the Commission now updates the FCM financial data on its Web site on a monthly basis rather than quarterly.
- The Commission recently started testing a program in which IBs file electronically with NFA, which then transmits the reports to the Commission.
- A new version of electronic filing software was recently distributed by the exchanges and NFA to FCMs and IBs. The Commission worked with the exchanges and NFA on the distribution and support of the software. Commission staff addressed and resolved several problems encountered by firms with regard to their financial filings.

Use of the Internet

The Commission uses the Internet to make information and assistance available to the general public. The Commission's Web site, at <http://www.cftc.gov>, provides information about the Commission and its work, including press releases, speeches of Commissioners, the *Weekly Advisory* (which includes Com-

mission events, meetings, news, seriatim actions, *Federal Register* notices and comment periods, initial decisions, and opinions and orders), the *Commitment of Trader Reports*, and other reports from the Market Oversight program, and the *Proceedings Bulletin*. The Commission's Web site also provides the public with information concerning trader sanctions, registration suspensions, and reparations. The Web site also hosts a public questionnaire that encourages the public to report suspected commodity market abuses.

In FY 2003 and FY 2004, the Commission will continue to work on the evaluation and redesign of its intranet Web site to improve and expand the quality of service to Commission staff. Based upon an expert review and the completion of the user interface architecture, the Commission will begin implementation of the proposed prototype. The Commission will evaluate the feasibility of portal and content management technologies to enhance the delivery and management of content, making the Commission's information more readily accessible and available to all staff.

Internet Monitoring

The Commission monitors the Internet for illegal activity involving futures and options. Enforcement staff review the contents of futures and options related Web sites, e-mail spam, and newsgroups to identify potential misconduct. This monitoring of the Internet generates enforcement inquiries concerning issues such as possible misrepresentations of the success of trading programs and the offer of potentially illegal products that are not traded on a trading facility designated or registered by the Commission. Commission enforcement actions often include allegations of violative conduct involving use of the Internet.

During FY 2002, the Enforcement program established a new Internet Enforcement Group to utilize advancing technology in its enforcement efforts. The Internet Enforcement Group provided training to staff in investigating Internet-related matters, and acquired hardware and software tools for capturing and preserving Internet Web pages for investigative and evidentiary purposes. In addition to its own Internet surveillance program, during FY 2002, Enforcement staff also coordinated with staff of the Federal Trade Commission (FTC) in conducting regional Internet sweeps to identify Web sites warranting follow-up review.

Enforcement Modernization Project

As part of the Enforcement Modernization Project (EMP), the Commission's Enforcement program, OIRM, and Office of the Inspector General (OIG) have undertaken a far-ranging review and certain enhancements of the automated systems that Enforcement staff use for recording and tracking enforcement-related data. Phase Three of the EMP contemplates the implementation of commercial software applications and associated computer hardware to perform some or all of the following three functions:

- *Case Management, Workflow, and Reporting.* This will provide the Enforcement program with a centralized relational database to track all Enforcement activity including the ability to: 1) create and monitor progress on investigation, discovery, and litigation plans; and 2) enable the Enforcement program to extract data from the system to more effectively meet its various reporting obligations.
- *Document Management.* This will allow the Enforcement program to store, index, and search electronic copies of documents obtained in the course of investigations and litigation so that Enforcement staff may quickly and efficiently access them through the Commission's personal computers including

the ability to access and present documentary and analytical evidence in court settings.

- Litigation Support. This will provide Enforcement staff with tools to: 1) simplify core litigation tasks, such as locating, organizing, and categorizing witness statements and documentary evidence; and 2) more efficiently prepare case plans and witness profiles for use in taking testimony and at trial.

Such computerized systems offer the added benefit of secure storage, thereby eliminating the risk of loss of paper records in circumstances such as the attacks of September 11, 2001.

OIRM has hired a manager to oversee this project who will begin work in the second quarter of FY 2003. The Enforcement program has prepared a "statement of work" and other documents necessary to solicit proposals for the creation of a requirements document to specify the requirements for the development and deployment of the product. OFM is currently reviewing the draft "statement of work" and supporting documents. This technology solution will provide additional support to improve the effectiveness and efficiency of the CFTC's Enforcement program and the execution of its Strategic Goal Two to "protect market users and the public."

Enforcement Program Reorganization

In FY 2002, the Commission reorganized its Enforcement program with the goal of ensuring that its trial attorneys, investigators, and support staff have the necessary tools and structure to efficiently and effectively do their jobs. A key component of this reorganization was the development of smaller, five to six person litigation teams that will provide greater flexibility to the program and decrease the management and reporting burdens on team leaders, which will allow these senior litigators more opportunities to "be on the front lines" litigating enforcement actions. The reorganization also included the creation of an Office of Cooperative Enforcement whose task is to reach out to financial regulators on the Federal and state levels, coordinate investigations and prosecutions of commodities violators, and ensure that the government addresses misconduct whenever appropriate.

Enforcement Training

During FY 2002, the Enforcement program devoted significant resources and time to develop and implement in-house training in deposition skills for newer staff and to provide intensive training in legal writing to professional staff in the Enforcement program. The Enforcement program also maintains a user-friendly electronic procedures manual that provides guidance in all critical areas of the program. The manual, which is available online to Enforcement staff nationwide, includes a comprehensive outline of information critical to the Enforcement program with hyperlinks to instructional materials, related statutes, and relevant authorities. During FY 2002, the Enforcement program provided additional guidance to staff regarding developments in the law under the Electronic Communications Privacy Act and the Right to Financial Privacy Act, including changes to the Bank Secrecy Act effected by the USA PATRIOT Act, which was enacted in response to the attacks of September 11, 2001. The Enforcement program also developed Officer of the Day Guidelines to assist staff in handling calls from the public. The guidelines will enhance the tracking of and responsiveness to customer complaints concerning particular persons or firms.

Regulatory and Legislative Matters

In FY 2002, OGC advised the Commission concerning implementation of the CFMA and assisted in implementing rules, regulations, and studies as required by the legislation. In particular, OGC coordinated the Commission's work with the SEC and other agencies to accomplish the joint rulemakings required by the CFMA. OGC also continued its review of requests for no-action relief to allow the offer and sale of foreign exchange-traded foreign stock index futures contracts in the U.S. In FY 2002, OGC issued no-action letters for six of these foreign exchange-traded foreign stock index futures contracts.

Opinions Process

During FY 2002, OGC revised its process for reviewing opinions matters and preparing draft decisions for the Commission. Successful implementation of the revised process significantly reduced both the number and average age of cases pending on the Commission's appellate docket.

Streamline Approval Process for Contract Market Designation

OGC, working in conjunction with the operating programs of the Commission, continued its work to streamline the approval process for contract market designations, DTEF registrations, and contract market and DTEF rule amendments. For example, many rule amendments may be implemented immediately pursuant to a written certification procedure. Similar procedures have been created for the listing for trading of new futures products by registered entities. These procedures also allow registered entities to request prior Commission approval for new futures products and for rule amendments, and OGC has assisted the operating programs in streamlining this process. Finally, OGC and the operating programs have streamlined the contract market designation and DTEF registration procedures, by among other things, establishing cross-functional teams to review these requests immediately upon receipt and pursuant to a stringent timeline.

Automated Access to Research Information

The Commission provides its employees with automated research tools that make information readily accessible at their desktops and provide faster and more efficient search and retrieval capabilities. The Commission Library installed a Windows-based integrated library system, Horizon, which enhances employee access to library materials. All catalog records have been successfully transferred from the previous system and all new borrower records have been included in Horizon. Presently, the system is available only on terminals in the Commission Library. The Commission Library is working to make the system available to all Commission employees at their desktops by the end of FY 2003.

Information Technology Improvements

During FY 2002, the Commission continues the implementation of the recommendations of an independent, external information technology assessment completed in FY 2000. The critical recommendations included the following: 1) reestablishment of a priority-setting body consisting of senior operating program managers; 2) major increases in the staffing levels of OIRM; and 3) attention to staff morale issues to counter staff hiring and retention problems that could cripple the Commission's information technology program.

In FY 2003, the continued refinement of the Integrated Surveillance System (ISS), which tracks futures and option data on a daily basis, is ongoing to improve

its capability to match anticipated changes in the futures industry. This system is also being enhanced to incorporate the requirements defined in the CFMA.

In FY 2004 the Commission will also: 1) continue reengineering the Exchange Database System, which tracks monthly trade data information; 2) enhance the performance of the reengineered ISS; 3) continue to modernize support for the Enforcement program's activities; 4) enhance the video-conferencing capability of the Commission; 5) continue to reengineer its information resource management processes as identified in the assessment; and 6) assess the potential application of Web technology to provide Commission staff with access to agency systems.

Information Technology Security Improvements

In FY 2003, one of the Commission's primary focus areas for information technology is maintaining a secure environment that adequately protects the Commission's information resources. To that end, the Commission is developing policies and procedures that reduce the Commission's vulnerability to external cyber attacks. The Commission is also recruiting an information technology security specialist to strengthen the resources dedicated to its information technology security program. An in-depth information technology security assessment began in FY 2002 and continues in FY 2003. As recommended by the FY 2000 independent information technology assessment and mandated in the Government Information Security Reform Act (GISRA), the Commission will begin further strengthening its information technology security program and integrating security throughout its critical infrastructure as well as within its business applications, thereby reducing its risk and external vulnerabilities.

Enhanced Management Strategies

During FY 2002, OED conducted a significant internal review of the structure and functions of the Office of Management Operations (formerly the Office of Administrative Services). The review included a process review of internal operations, benchmarking against other agencies, and extensive interviews with headquarters and regional staff at all levels about their administrative needs. OED completed the study in early FY 2003.

During FY 2002, OED continued its work to improve financial management through increasing the efficiency of financial reporting, the functionality of financial systems, and the skill level of the staff through cross training, seminars, and correspondence training. For example, OED implemented a process for reconciling travel accounts to preclude the possible misuse of government travel cards, hired a contractor to assist with changes to the Standard General Ledger, and prepared for an upgraded travel management system.

OED collaborated with members of the Performance Management Advisory Committee in conducting a review of the Commission's performance assessment system. As a result of this review, amendments were made to the assessment cycle in an effort to enhance the framework in which employee performance is planned, monitored, assessed, and recognized in support of individual and organizational performance. OED also worked with staff throughout the CFTC to develop and offer five new courses through the Industry/Legal/Technical training program, while providing additional human resources training and information online through the *cyberFeds.com* Web site.

OED also supported initiatives to improve benefits offerings by planning training and offering materials to allow employees to make intelligent decisions about long-term care insurance. OED also implemented a number of new systems to

streamline operations, including use of commercial vendors for its printing and reproduction needs. Finally, OED worked to transfer the ethics program from OHR to OGC to consolidate functions related to ethics.

Improved Access to Human Resources Information

The Commission continues to design, test, and implement governmentwide human resource systems that will provide efficient and effective customer services. Since its inception, the Commission has worked with a group of other small agencies and OPM to create and refine systems, including:

- *Alternative Dispute Resolution (ADR)*. This program provides effective alternative methods to resolve workplace disputes, EEO complaints, and employee grievances. Methods include facilitation, conciliation, early neutral intervention, fact-finding, mediation, and cooperative problem-solving.
- *CyberFeds.com*. This Web-based tool provides managers with comprehensive research and analysis on a variety of human resource issues.
- *Delegated Examining Unit*. This unit assumed examination authority under a delegation from OPM, enhancing the Commission's ability to fill vacant positions expeditiously.
- *Document Scanner*. An improved scanner enables OHR to capture electronic versions of position descriptions, vacancy announcements, and human resources reports. These documents are made available to managers and supervisors via the Commission's intranet, Open Interest.
- *Employee Assistance Programs (EAP)*. To enhance employee well-being, the Commission maintains a free, confidential counseling program with 24-hour availability for employees and their family members to help with personal problems that may impact their work life. The EAP also provides consultation to supervisors who have employees with performance and/or attendance problems. The EAP typically deals with problems surrounding work, finances, substance abuse, family, relationships, health, legal concerns, and emotional health.
- *Employee Express*. This system allows Federal employees to make changes to their personnel and payroll data and benefits elections by phone or over the Internet.
- *Employee Handbook*. This handbook provides important information about the Commission, including the basic principles governing employment in the Federal government.
- *Employee Resource Center (ERC)*. A resource center with a circulating library of resources and learning seminars, to include videos, books, resource locators, Web sites, literature, and materials encompassing career and life planning, training and development, health, employee assistance, and work/life balance. The ERC is host to employee work groups, meetings, and educational outreach programs to include health/EAP seminars and preventive screenings; new employee orientation; transit subsidy distribution; performance management committee meetings and focus groups; and training program development committees.
- *Entry Processing Inquiry and Correction System (EPIC)*. OHR has collaborated with the National Finance Center (NFC) over the past year to transition to this integrated system, which offers improved functionality in processing personnel actions. EPIC, which was implemented in September 2002, replaced the Personnel Action Processing System, the Payroll/Personnel Re-

mote Entry System, the Suspense Inquiry System, the Future Inquiry System, and the History Correction Update Processing System.

- *Health and Wellness*. The fitness centers enhance the health of employees. The Commission has contractor services for five health units that provide for walk-in care and treatment, with additional services to include immunizations, physical examinations, health screenings, and various promotion and outreach efforts.
- *Paperless Earnings and Leave Statements Option*. This option, which is on the NFC's Employee Personal Page, affords employees the opportunity to elect to discontinue receiving paper Earnings and Leave Statements in the mail.
- *Open Interest and CFTC.gov*. Open Interest, the Commission's intranet site, is designed to provide Commission employees immediate access to human resources references, such as the NFC, OPM, and the Thrift Savings Plan. In addition to human resources information found on Open Interest, the Commission has recently redesigned its official Web site, at <<http://www.cftc.gov>>, which includes an updated employment page, "Working for the CFTC."
- *Replacement Timekeeping Software*. The new NFC System for Time and Attendance Reporting (STAR) was installed during FY 2001, improving speed, data security, and training for new timekeepers.
- *Videoconferencing*. Through the installation of videoconferencing in FY 2002, training and other group activities take place more quickly and economically and with an expanded audience.
- *Videotaping of Training and Special Events*. The videotaping of various Commission sessions and activities affords the CFTC an opportunity to capture educational briefings, seminars, and programs for circulation through the ERC to facilitate audience expansion and new employee review.
- *Reasonable Accommodations Program*. The Rehabilitation Act of 1973 requires Federal employees to provide reasonable accommodations for qualified individuals with disabilities. The Commission is committed to providing reasonable accommodation to its employees and applicants for employment in order to assure that individuals with disabilities enjoy full access to equal employment opportunities at CFTC.
- *Virtual Orientation Program*. This automated orientation program, which is scheduled to be implemented in FY 2003, is designed to provide important information to new employees concerning their employment at the Commission.

Meeting the Goals of the President's Management Agenda

Strategic Management of Human Capital

In line with the President's Management Agenda, OHR focuses on strategic management of human capital as its priority goal. Progress to date warrants a self rating of yellow, since specific programs are in place to address, and are gathering momentum to meet, each Standard for Success under that goal on the Executive Branch Management Scorecard. Specific ongoing activities relative to each standard are as follows:

- *Strategy aligned with mission, goals, and organizational objectives*. The focus of the Commission's human capital strategy is implementing pay parity with other Federal financial regulators, as provided by the Farm Security and Rural Investment Act of 2002, enacted in May. OHR has taken the initial

formal steps to develop an alternative compensation system, one that will be specifically designed to support many of the other criteria under this goal, such as retaining mission-critical employees with up-to-date skills who can support a revamped organizational structure.

- *Citizen-centered organizational structure.* Since the passage of the CFMA in December 2000, OHR has supported Commission planning to convert from a front-line regulator to an oversight body. This planning culminated in the CFTC's restructuring effective June 30, 2002. In its new form, the Commission will continue to review and change its business practices so as to fully realize the potential offered by the CFMA to center its activities on the citizenry and its mission.
- *Sustains performance, utilizes flexibilities, and plans succession.* OHR actions responsive to each element include: 1) vastly enlarged CFTC training programs to enhance management and employee skills, not least in the area of information technology; 2) use of system flexibilities (such as recruitment and retention allowances and a Voluntary Early Retirement Authority obtained from OPM) and technology and tools (such as installation of the *cyberFeds.com* online human resource reference tool and on-site training of managers in its use); 3) inclusion in the Commission's restructuring plan a systematic review of areas in which employees require retraining to meet their revised roles under the CFMA.
- *Meet mission-critical skill needs.* One tactic used for the CFMA restructuring is to organize Commission programs around broader functional roles, rather than more limiting subject matter areas. For example, in place of several sub-units responsible for narrow types of cases, the successor programs are each capable of responding to the same range of cases or requests. This improves both the responsiveness of programs and offices and the ability to cross-train staff so that the greatest number may develop the most needed skill sets.
- *Reward performance.* The CFTC implemented its new performance appraisal system on July 1, 2002. It includes features designed to improve the communication process, assure an initial and continuing communication of yearly goals, provide for objective review and assessment geared toward results, and reward employee contributions promptly.
- *Workforce emphasizes e-government and competition.* OHR has worked to encourage modern workforce skills by supporting quarterly curriculum offerings of in-house training in information technology as well as by implementing organizational relationships that avoid a stovepipe flow of information from regional offices to headquarters, thereby encouraging intra-regional information sharing and coordination.

OHR believes that each set of actions under one criterion above will reinforce the activities relative to all the other criteria, resulting as anticipated in continual progress toward full realization of the standards for success represented by a green light rating.

Expanding Electronic Government

Expanding electronic government to serve citizens and help the Commission meet the demand for online government is extremely challenging. However, the Commission has completed its first step in the government-to-business initiative for online rulemaking. A citizen can now use the one-stop service delivery integrated through *Firstgov.gov* to access the CFTC's docket information. As this initiative develops further within the top 10 rulemaking agencies, the Commis-

sion will stay abreast of the requirements to migrate to a unified cross-agency online rulemaking docket system.

The Commission has two major information technology investments for legacy systems that were migrated from a mainframe to a client-server environment as a result of Y2K concerns. These two systems support two of the Commission's strategic goals: 1) to protect the economic functions of the commodity futures and option markets; and 2) to protect market users and the public. Both of these systems have been in the "steady state" mode as defined by Exhibit 53 for several years and did not have formal business cases developed at their inception as required by A-11. Currently, the business process that is supported by the Exchange Database System is being reevaluated by the Commission to determine how it will manage its regulatory requirements for trade practice investigations as a result of the CFMA. After a decision is made about the future business process requirement, the Commission will reevaluate the information technology investment decision for the system that supports that business process.

The third major Commission information technology investment identified on Exhibit 53 is a new mission critical system that supports the Enforcement role in the futures and option markets. This information technology investment decision followed the capital planning process using an integrated product team to define the business requirements for the Commission from the corporate perspective and to develop a business case that was presented to the Commission's strategic planning body known as the Executive Management Council (EMC). The investment decision was made based on that business case presented to the EMC. The first step for this new system in the "select-control-evaluate" model is complete. The Commission is actively engaged in creating a strong capital planning process that ensures information technology investments are well defined, selected, and managed on the basis of a well-founded business case.

Competitive Sourcing

The Commission is working on two initiatives to make the procurement process more competitive:

- *Making Greater Use of Performance-Based Service Contracts.* Performance-based service contracts have three key elements: 1) a statement of work that defines requirements in terms of measurable outputs; 2) a quality assurance plan directly corresponding to the measurable outputs, which is used to determine whether the contractor's outputs meet the requirements defined in the statement of work; and 3) financial performance incentives.

Procurement staff and OIRM (the only client organization with a continuing need for services that might lend themselves to this type of contracting) are planning the use of performance-based service contracts when appropriate. Also, procurement staff will be attending training to increase its knowledge of performance-based contracting.

- *Expanding the Application of Online Procurement.* The Procurement staff presently makes considerable use of the Internet for procurement purposes—to conduct market research, advertise CFTC requirements, and obtain pricing. A member of the procurement staff has been tasked with taking the lead in engineering this transition.

Improved Financial Performance

OFM continues to work towards improving its financial performance through increasing the efficiency of financial reporting, enhancing financial systems to improve functionality and strengthen regulatory compliance, and improving the

technical skills of the staff through on-the-job cross-training, as well as participation in seminars, conferences, and other formal training events. Initiatives for improving the CFTC's financial performance to meet the core criteria for successful financial management standards include the following:

- *Financial management systems meet Federal financial management systems requirements and applicable Federal accounting and transaction standards.* In FY 2002, OFM obtained the services of the U.S. Treasury Department and a GSA Schedule contractor to provide technical assistance with assessing and improving the CFTC's core financial and travel systems, data integrity and reporting, and business processes and policies. The assessments determined that these systems are in substantial compliance with applicable systems requirements and accounting and transaction standards. Implementation of recommended changes and improvements to the CFTC's core financial system, as well as implementation of an upgraded travel system, will continue through FY 2003. In FY 2003, OFM will complete an in-depth analysis of the Commission's financial management system to determine if: 1) all regulatory, management, program, and operating needs are met; 2) it continues to be the most cost-effective and efficient system available in comparison to other JFMIP-certified financial systems; 3) the CFTC needs to pursue the acquisition and implementation of a new system that will meet its needs. In FY 2004, OFM will complete the analysis and develop a plan for enhancing its current financial system or acquiring and implementing a new system.

In addition to reviewing the CFTC's core financial and travel systems in FY 2002, assessments were also conducted on CFTC's asset management system. The assessments concluded that the CFTC lacks a comprehensive asset management program, a centralized automated software system, and support for financial management reporting and systems compliance. The CFTC's FY 2002 Federal Managers' Financial Integrity Act Report identified this system as a material weakness and provided a remediation plan. In FY 2003, OFM will lead a team to develop an integrated, agency-wide solution for implementing in FY 2004 an integrated asset management system.

- *Accurate and timely financial information.* In FY 2002, OFM submitted timely and accurate monthly, quarterly, and year-end financial reports to the U.S. Treasury that complied with Federal regulations. In FY 2003, OFM will work with the U.S. Treasury to prepare for meeting the new regulatory reporting requirements of the Accountability of Tax Dollars Act of 2002. In FY 2004, OFM plans to submit accurate and timely financial information.
- *Integrated financial and performance management systems supporting day-to-day operations.* In FY 2003, OFM will assess its current methods for producing financial and performance data from its systems and determine how enhancements can be made to enhance the integration of the systems and resulting reports. In FY 2004, OFM will continue its effort to improve the integration of financial and performance data to support better performance measurement and decision making regarding the CFTC's resources.
- *Unqualified and timely audit opinions.* The Accountability of Tax Dollars Act of 2002 will also require the CFTC to comply with reporting requirements of the Chief Financial Officers Act of 1990 in FY 2003. Reporting requirements include submitting: 1) unaudited financial statements for the first three fiscal quarters of FY 2003; and 2) audited financial statement for fiscal year-end. In FY 2003, OFM will continue to work with the U.S. Treasury to provide technical assistance and support for complying with these new requirements. In FY 2004, the CFTC will receive the results of its first audited financial statements and OFM will develop a plan for correcting any reported deficiencies.

Budget & Performance Integration

In its efforts to meet the requirements of the Government Performance and Results Act of 1993 (GPRA), the Commission has worked diligently to integrate the processes of budget formulation and performance planning. Initially led by the Strategic Planning Task Force⁶ in FY 1997, the Commission adopted a strategic planning structure—a mission statement, outcome objectives, activities, and a set of performance indicators—that led to the successful completion of its first two five-year strategic plans, integrated budget requests and annual performance plans, and annual performance reports.

The original strategic planning structure, although modified and adjusted slightly, has continued to guide the Commission's progress in meeting the requirements of GPRA and will now also serve as the basis for meeting the budget and performance integration goal of the President's Management Agenda. The Commission's success in this area continues to evolve, however. Due to the enactment of the CFMA, the subsequent restructuring of Commission programs, and the recent exemption from Title V of the U.S. Code, the strategic planning structure will be reevaluated to reflect the Commission's new business processes, programs, and activities.

The Commission rates its progress in this area as a "yellow," meaning it has achieved some, but not all, of the core criteria outlined in the Executive Branch Management Scorecard. The following describes the Commission's accomplishments related to the budget and performance integration goal and explains the rationale for its self-rating of yellow:

- *Creation, implementation, and monitoring of an integrated performance plan/budget.* As a result of the development of the Commission's strategic planning structure, the budget and planning staff of OFM reformatted the Commission's budget requests to OMB and Congress. The new format consists of three parts: part I contains the traditional program-based budget structure in which the Commission's budget request is summarized and justified; part II contains the annual performance plan that incorporates the goal-based approach of the five-year strategic plan and distributes requested funds by goal and outcome objective; part III summarizes the Commission's actual performance as compared to the annual budget request and annual goals set forth in the corresponding annual performance plan and five-year strategic plan.

While the Commission has been fully successful in the creation and implementation of an integrated performance plan/budget, the process of monitoring it has not reached its full potential. The Commission currently uses its Management Accounting Structure Code system (MASC) to track the expenditure of personnel resources in terms of the activities of the strategic planning structure. This remains a manual reconciliation of actual performance against resources. The staff of OFM plan to automate this process by linking the MASC system of activity monitoring to its financial management system of expenditure monitoring. The result will be a fully automated and integrated system that monitors all resources (not just personnel) by outcome objective and serves as a managerial tool for performance evaluation.

- *Performance plan/budget sets forth outcome goals, output targets, and requested resources in context of past results.* As mentioned previously, a slightly modified version of the original strategic planning structure still guides the Commission's development of the integrated performance plan/

⁶ The Strategic Planning Task Force consisted of a team of managers from each of the Commission's programs as well as the budget and planning staff of the Office of Financial Management.

budget. The modifications to the structure have been based on evaluations of past performance conducted quarterly by program managers. In addition, the GAO critiqued the Commission's strategic planning structure, providing valuable suggestions regarding how to improve its effectiveness. These internal evaluations and the GAO critiques have led to a more streamlined set of activities and performance indicators—output measures, outcome measures, and annual performance targets. With each modification, the integrated performance plan/budget has also been modified to reflect the change.

- *Budget accounts, staff, and programs/activities are aligned to achieve program targets.* Prior to the recent restructuring, the Commission's organizational structure was based on five mission-critical programs and an executive direction and support function. One budget account existed for each of the six functional areas, and each account's expenditures and activities could be tracked separately and distinctly from each other. In addition, each mission-critical program area had assigned to it a set of activities and performance indicators (parts of the strategic planning structure) that created a means of tracking its progress in meeting performance targets. This clear alignment of program budget accounts and the strategic planning structure will continue with the new organizational structure, which now consists of six mission-critical program areas and the same executive direction and support function.
- *Full cost of outputs and programs is integrated with performance.* Parts I and II of the Commission's budget document contain a cross-cutting analysis that demonstrates how the full cost of each budget request is fully integrated with planned performance. That is, the program-based analysis of the budget request is augmented by a programmatic distribution of resources by each of the Commission's strategic goals. Conversely, the goal-based analysis of the annual performance plan also disaggregates resources by program. This analysis was developed both to demonstrate that full costs were integrated with performance *and* to engender greater understanding among the public, the Congress, the Administration, market users, and the many other interested persons and entities regarding how resources contribute to the accomplishment of the Commission's mission.
- *Agency documents program effectiveness, analyzes policies' impact on outcomes, and demonstrates how results inform budget decisions.* The Commission's annual performance report documents its effectiveness in meeting program performance targets. To produce this report, the Commission developed the Quarterly Performance Review (QPR) to evaluate and report on Commission progress in meeting annual performance targets by: 1) summarizing program funding, staffing, and performance results data by strategic goal; 2) comparing annual targets to quarterly progress; and 3) outlining each program's quarterly accomplishments and priorities.

In FY 2001, after the enactment of the CFMA, however, the Commission began reevaluating its strategic planning structure and the value of the QPR. Acknowledging the need to define more meaningful intermediate and end outcome measures as well as to reduce the reporting burden on program managers, the QPR was discontinued. Program managers continue to monitor performance using the original strategic planning structure and associated performance indicators; however, in the interim, the EMC has begun identifying the Commission's new business processes under the CFMA and evaluating how those processes can be built upon to develop an integrated strategic planning and evaluation structure that will continue to: 1) allow the monitoring of resources and performance in an integrated manner; 2) generate meaningful analyses of policy impacts on outcomes; and 3) enable a clear understanding of how performance results affect budget decisions.

WORKING RELATIONSHIPS

Strong working relationships with other organizations and jurisdictions involved in commodity futures and option trading, law enforcement, and domestic and international financial regulation increase the Commission's ability to build knowledge, develop insight, share information, and participate in developing standard practices and policies across these industries.

President's Working Group on Financial Markets

The PWG is a forum for the coordination of Federal financial regulation across markets. It brings together the leaders of the Federal financial regulatory agencies, including the Secretary of the Treasury, who chairs the group, and chairs of the FRB, the CFTC, and the SEC. In addition to the four primary financial regulators, the PWG also includes the heads of the National Economic Council (NEC), the Council of Economic Advisors, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Bank of New York, and the Office of Thrift Supervision (OTS). Issues considered by the PWG and its staff have included individual and coordinated agency initiatives concerning risk assessment, capital requirements, internal controls, disclosure, accounting, market practices relating to trading in derivative instruments, bankruptcy law revisions, and contingency planning for market emergencies.

During FY 2002, the PWG met regularly to share information regarding certain market events, implementation of the CFMA, pending bankruptcy reform, and financial netting legislation. Beginning on the morning of September 11, 2001, the principals met frequently throughout the day and subsequent days to monitor and assist the financial markets as they recovered from the terrorist attacks and resumed trading.

Corporate Fraud Task Force

By Executive Order signed by President Bush on July 9, 2002, the CFTC was named as a member of the Corporate Fraud Task Force. This task force was established with the objective of strengthening the efforts of DOJ, Federal, state, and local agencies to investigate and prosecute significant financial crimes, recover the proceeds of such crimes, and ensure just and effective punishment of those who perpetrate financial crimes. Recent efforts of this inter-agency cooperative task force have included an investigation of the alleged manipulation of the California energy markets during the power crisis of 2000 to 2001.

The Securities and Exchange Commission and the CFMA

Title II of the CFMA repeals the longstanding ban on single-stock futures and directs the CFTC and the SEC to implement a joint regulatory framework for SFPs, which include single-stock and narrow-based stock index futures. Trading of such futures products began during the first quarter of FY 2003, and trading of options on these futures could begin three years after enactment of the CFMA if the CFTC and the SEC jointly determine to permit such trading. The CFTC and the SEC have worked together to promulgate rules, including: 1) rules for registered DCOs; 2) notice procedures permitting national securities exchanges, national securities associations, and alternative trading systems to be designated contract markets in SFPs; and 3) restrictions on dual trading in SFPs for FBs.

Information Sharing with Other Financial Regulators

The Commission benefits from established intergovernmental partnerships, sharing information and consulting on issues of importance to the Commission and other organizations. Regulatory coordination with the SEC will increase with the advent of SFPs in FY 2002.

The Commission routinely shares information with other financial market regulators, particularly the SEC, the U.S. Treasury Department, the FRB, and the New York Federal Reserve Bank. Biweekly staff conference calls are held with these organizations to review developments in the cash and futures markets for U.S. Treasury securities. Quarterly staff meetings also are held to review major expirations of financial futures markets. The Commission routinely shares information regarding contract market terms and conditions with these and other financial market regulators and other agencies pursuant to statutory requirements for consultation and to obtain information from other agencies that have expertise with regard to a particular commodity under review.

Registered Futures Associations

The CEA authorizes the Commission to delegate registration functions to RFAs and requires that RFAs perform certain self-regulatory functions. The NFA is an RFA and industry-wide SRO for the futures industry and has been in operation for 20 years. NFA has been the principal direct regulator, under Commission oversight, of those industry professionals who are not members of another SRO. Except for certain securities broker-dealers who are registered as FCMs solely to engage in security future product transactions, Commission Rule 170.15 specifically requires membership in an RFA of each person required to register as an FCM. That rule, combined with the by-laws of NFA, operates to compel membership in an RFA by all industry professionals who deal with the public with respect to commodity interest transactions.

During FY 2003, certain securities broker-dealers will continue to register as FCMs or IBs solely to engage in SFP transactions through a simplified, notice registration process. The CFMA exempts these firms from RFA membership.

The CEA is designed to promote coordination between any RFA and the Commission to assure high standards for industry professionals. NFA monitors registrants, under Commission oversight, for compliance with the CEA and rules promulgated thereunder, as well as NFA rules. NFA also monitors, under Commission oversight, the activities of NFA members registered as CPOs, CTAs, IBs, and FCMs who are not members of a futures exchange as well as APs of any of the foregoing.

The Commission has delegated to NFA virtually all registration functions, including processing registration applications and related documentation and taking adverse actions against registrants and applicants for registration based upon disqualifying conduct. The authority delegated by the Commission covers all registrants, even those over whom NFA does not exercise primary front-line jurisdiction, such as FCMs who are exchange members, FBs, FTs, and CTAs who are not NFA members. In April 1998, the Commission delegated authority to NFA concerning registration involving agricultural trade options merchants (ATOMs) and their APs in connection with the Commission's promulgation of rules to govern trading of agricultural trade options. In addition, on April 13, 2000, the Commission issued a revised "Guidance Letter" to NFA, advising NFA to cease using Commission Rule 1.63 as the basis for determining whether the disciplinary history of a FB, FT, or an applicant for registration in either category, should disqualify the person from registration. Instead, the letter advised NFA to use the

standard articulated in *In re Clark* (statutory disqualification may arise if the disciplinary history consists of a pattern of exchange disciplinary actions alleging serious rule violations that resulted in significant sanctions). The Commission codified this guidance in October 2001. Finally, the Commission delegated to NFA in August 2001 the authority to process FCM and IB notice registration applications from securities broker-dealers who limit their futures activity to SFPs.

The Commission oversees the NFA registration program through frequent contacts with NFA staff on specific matters as well as through formal reviews by the Commission of NFA programs. Reviews are presented to the Commission and made public. In late 1995, the Registration Working Group (RWG) was established, which includes staff of the Commission and NFA. This group convenes quarterly to discuss issues of mutual interest concerning registration.

During FY 2002, the RWG discussed, among other things: 1) continued implementation of the CFMA; 2) implementation of NFA's online registration system; 3) removal of registration holds; and 4) coordination with the SEC regarding withdrawal of a registrant's primary registration.

The Commission has forged partnerships with NFA in other areas by delegating additional responsibilities while maintaining vigorous oversight programs to assure that newly delegated responsibilities are discharged fairly and effectively. For example, beginning in 1993, all individual registrants were required to attend ethics training. In December 1995, the Commission delegated to NFA functions relating to: 1) reviewing certifications required to be filed by persons seeking to become ethics trainers; 2) monitoring activities of ethics trainers; and 3) maintaining records of registrants' attendance at ethics training sessions. As part of regulatory reform, the Commission amended its rules in October 2001 to permit registrants greater flexibility in complying with continuing education requirements.

In September 1997, the Commission delegated the review of applications of individual foreign firms for exemption from registration, as well as certain other tasks related to activities in the foreign futures and option areas. In November 1997, the Commission delegated to NFA the function of reviewing certain CPO and CTA disclosure documents and processing CPO and CTA notices of exemption under various Commission rules.

The Commission also is working with NFA on various regulatory issues. The Commission is working with NFA on performance reporting and disclosure enhancements, sales practice and telemarketing issues, audit priority system enhancements, expansion of the electronic filing program for financial reports, off-exchange foreign currency transactions, anti-money laundering programs and automated order routing systems guidance. The Commission also assisted NFA: 1) in becoming a limited purpose national securities association in order to regulate certain members' SFP activities; and 2) with the redesign of the comprehensive registration database, the Membership Registration Receivables System (MRRS), including new registration forms and a successful transition to an online registration system.

Infrastructure Protection

On October 16, 2001 the President issued Executive Order 13231 creating the President's Critical Infrastructure Protection Board and, as a Committee of that Board, the FBIIC. The purpose of FBIIC is to help coordinate the efforts of Federal and state financial regulators to improve the security and resiliency of infrastructure supporting the U.S. financial system. The staff of the Clearing and In-

termediary Oversight program, along with OIRM staff, have served as the Commission's representatives to FBIIC and have worked with FBIIC and its subcommittees to address issues such as ensuring telecommunications for key participants in an emergency, evaluating the preparedness of key industry participants, and coordinating agency responses to emergencies. To this end, the Commission provided relief from: 1) compliance with normal regulatory requirements in the immediate aftermath of the September 11, 2001 disaster for those entities that were directly impacted; and 2) certain record-keeping requirements to firms that lost records as a result of the disaster. The Commission has also worked with SROs and clearing organizations to develop their continuity of operations plans and to review updated plans. The Commission is continuing to work with key industry participants regarding the Government Emergency Telecommunications Service (GETS) and the Telecommunications Services Priority (TSP) system.

U.S. Department of Agriculture

Consistent with the mandate of the Federal Agricultural Improvement & Reform (FAIR) Act of 1996, the Commission and its staff have been working with the U.S. Department of Agriculture's (USDA) Risk Management Agency, the USDA Cooperative State Research, Education, and Extension Service, and the USDA Office of Outreach in a risk management education effort. The FAIR Act initiated a phase-out of the price support programs that had provided a safety net for American agriculture since the 1930s. Recognizing that the disappearance of these programs would force producers to become more self-reliant in risk management, the FAIR Act required the Secretary of Agriculture, "in consultation with the Commodity Futures Trading Commission," to provide producers with appropriate "...education in management of the financial risks inherent in the production and marketing of agricultural commodities...."

This risk management education effort is intended to be broad in scope and content, focusing on integrating basic information from all relevant sectors, including crop insurance, futures, and options. Recent initiatives include development of educational materials and programs for ultimate delivery to farmers through the funding of a number of grants for risk management education projects as well as planning and conducting a number of regional risk management education conferences and seminars. Longer term strategies for the delivery of educational materials to producers currently are being developed and implemented and include the establishment of Web site tutorials, the use of television and radio infomercials, and local meetings and seminars. Chairman Newsome serves as the Commission's designee to the Risk Management Education Steering Committee, which oversees this entire risk management education effort.

Educational Opportunities & Outreach Efforts

Commission staff provided technical assistance to foreign market authorities and foreign exchange representatives to promote the creation of effective international regulatory standards by allowing other regulators to benefit from the vast regulatory experience of the Commission. Each year, the Commission hosts numerous delegations from foreign jurisdictions seeking to learn about various aspects of the Commission's regulatory program. Each year, the Commission also conducts a one-week training seminar for foreign regulators and exchange representatives. The seminar provides intensive training on the full scope of the Commission's regulatory program and broader policy issues.

The Commission has authorized staff to travel to foreign locations to provide on-site assistance to foreign regulatory authorities. Commission staff participated in numerous training initiatives, including: 1) a Financial Services Volunteer Corps

workshop on compliance and surveillance in Jakarta, Indonesia; 2) a symposium on monetary, financial, and commodity exchanges sponsored by the Agency for International Development, which was held in Romania; 3) a symposium on market surveillance sponsored by the Hungarian Stock Exchange, which was held in Budapest; and 4) a workshop on regulatory oversight and crisis management at the Toronto Centre in Canada. Staff have also provided assistance to the World Bank, International Monetary Fund, and Financial Stability Forum (FSF) initiative to assess implementation of standards of best practices.

Each year, the Commission sponsors a meeting of international regulators that takes place in conjunction with the FIA's Annual Spring Conference. The meeting is an opportunity for international regulators to discuss issues of current practical concern, such as the structural and regulatory changes occurring as a result of technology and global markets. These meetings foster greater cross-border cooperation among regulators and permit regulators to take the global perspective into account when approaching domestic regulatory issues. The meeting in FY 2002 discussed: 1) recent market events and changes in the regulatory landscape; 2) practical approaches to organizing regulation in an increasingly integrated global futures market in order to facilitate effective supervision of cross-border business; 3) industry views on the impact of new market flexibility on international financial services; and 4) prospects for harmonization of clearing and settlement standards.

Upon request from various international financial regulators, the Commission provides information on its programs and comments on various reports. For example, comments were provided to the U.S. representatives to the Hague Advisory Group, which is considering revisions to the Hague Convention on securities settlement.

The Chicago Federal Reserve Bank has supported the Commission's training seminar for foreign regulators by permitting the Commission to use the Chicago Federal Reserve's facilities and by participating in the first day plenary session. Similarly, the International Finance Corporation, a division of the World Bank, co-sponsors with the Commission a one-day seminar in Washington, D.C. on the fundamentals of creating successful derivatives markets in developing capital markets. The Inter-American Development Bank offers funds to assist regulators from Latin America to attend the Commission's annual training seminar and to provide for the transcription and translation of the seminar's materials into Spanish.

The Commission also participates in multiple forums of industry professionals, attorneys, and accountants who practice in the futures area as well as end-users of futures markets. The forums typically provide an opportunity for Commission staff to discuss current issues regarding the CEA, Commission rules and rule proposals, and market developments. For example, Commission members or staff have made presentations at conferences sponsored by the FIA.

Agricultural Advisory Committee

The Agricultural Advisory Committee (AAC) represents a vital link between the Commission, which regulates agricultural futures and option markets, and the agricultural community, which depends on those markets for hedging and price discovery. The 25 member organizations of the AAC represent a major portion of the American agricultural community. Since 1985, the meetings of the AAC have fostered an ongoing dialogue between that community and the Commission.

The AAC's most recent meeting, its 29th, took place on March 28, 2001. At the meeting, the committee was briefed on the major restructuring of futures regulation mandated by the CFMA. The committee members then engaged in substantive discussions with industry witnesses, Commission staff, and each other concerning the usage of, and appropriate regulatory structure for, agricultural trade options and other risk management alternatives in light of the CFMA and proposed regulatory changes. They also heard presentations on the Warehouse Act of 2000 as it applies to agricultural futures and current activities of USDA's Risk Management Agency.

Technology Advisory Committee

The Technology Advisory Committee (TAC) advises the Commission on the impact and implications of technological innovation in the financial services and commodity markets. Its objectives include: 1) identifying new technologies utilized by financial services and commodity markets and their participants; 2) analyzing the application of new technologies in financial services and commodity markets as well as by market professionals and market users, particularly in the areas of system capacities and readiness, order flow practices, and clearing and payment activities; 3) reviewing the CEA, as amended by the CFMA, and the regulations promulgated thereunder in light of new technologies employed by market participants and ensuring the Commission's ability to exercise appropriate fraud and manipulation authority; and 4) examining ways that the Commission may respond to the use of technology in financial services and commodity markets through appropriate legislative proposals and/or regulatory reform.

During FY 2002, the TAC met to discuss industry experiences and responses to the disaster on September 11, 2001, including the effectiveness of disaster preparedness and business continuity plans; private and public sector responses to vulnerabilities and threats to the electronic infrastructure; and the implementation of technology-driven innovations in clearing. Also, two advisory subcommittees to the TAC issued reports that were accepted by the TAC and forwarded to the Commission for its consideration. The Standardization Subcommittee issued its report entitled *Recommendations for Standardization of Protocol and Content of Order Flow Data*, and the Market Access Subcommittee forwarded its report entitled *Best Practices for Organized Electronic Markets*.

Global Markets Advisory Committee

The Global Markets Advisory Committee (GMAC) was created by the Commission on February 25, 1998, for the purpose of obtaining input on international market issues that affect the integrity and competitiveness of U.S. markets and firms engaged in global business. As stated in GMAC's charter, "[t]he objectives and scope of activities of [GMAC] shall be to conduct public meetings and to submit reports and recommendations on matters of concern to the exchanges, firms, market users, and the Commission regarding the regulatory challenges of a global marketplace ... including ... avoiding unnecessary regulatory or operational impediments faced by those doing global business." Membership of GMAC consists of 23 individuals representing U.S. futures exchanges, self-regulators, financial and commodity intermediaries, market users, and traders.

GMAC's most recent meeting took place on August 1, 2001. At the meeting, selected committee members, Commission staff, and industry representatives briefed the full committee on recent developments in electronic trading, the CFMA provisions on SFPs, cross-border access to domestic and foreign investors, and IOSCO activities. Following the briefings, GMAC members discussed policy

alternatives potentially available under the CFMA amendments and considered how best to proceed in advising the Commission.

Memoranda of Understanding, International Arrangements

During the past year, the Commission continued to cooperate with a variety of foreign regulatory and enforcement authorities through formal MOUs and other arrangements to combat cross-border fraud and other illegal practices that could harm customers or threaten market integrity. Cross-border information sharing among regulators and enforcement authorities plays an integral role in the effective surveillance of global markets linked by products, participants, and technology. Indeed, information-sharing arrangements can be critical to combating cross-border fraud and manipulation, addressing the financial risks of market participants and sharing regulatory expertise on market oversight and supervision. As a matter of course, the Commission makes and receives a significant number of requests for assistance and information to and from foreign authorities in connection with various marketplace and enforcement issues.

The Commission has entered into MOUs and cooperative arrangements with many jurisdictions including 21 formal cooperative enforcement arrangements, four arrangements relating to financial information sharing, and nine cooperative arrangements for sharing information on matters related to the implementation of the Commission's Part 30 regulations, which grant foreign firms an exemption from certain Commission rules. Moreover, the Commission was instrumental in the development of the Declaration on Cooperation and Supervision of International Futures Markets and Clearing Organizations and its companion exchange MOU, a multinational, large exposure, information-sharing arrangement.

The most recent MOUs are:

- A statement of intent concerning cooperation, consultation and the exchange of information between the Commission, the SEC, and the Japanese Financial Services Agency;
- A MOU between the Commission, the SEC, and the Jersey Financial Services Commission concerning cooperation, consultation, and the exchange of information;
- An arrangement with the French Conseil des Marchés Financiers for the sharing of fitness information regarding remote market participants; and
- An arrangement regarding regulatory cooperation and the provision of technical assistance with the Superintendencia de Valores Y Seguros of Chile and Chinese Securities Regulatory Commission.

International Organizations

- IOSCO. The Commission is an active participant in IOSCO, an organization of more than 174 members from over 100 countries. The main purposes of IOSCO are to: 1) provide mechanisms for exchanging information and expertise among regulatory authorities for the supervision of world securities and derivatives markets; 2) establish standards of best practices; 3) ensure market integrity; and 4) promote effective supervision. IOSCO deals with issues affecting both developed and emerging markets, secondary markets, financial intermediaries, international enforcement concerns, and investment management. Work is driven by IOSCO members and is carried out in working groups of its Technical Committee. The Chairman of the Commission serves as a member of the Technical Committee.

IOSCO conducts its work primarily through individual standing committees that specialize in issues related to multinational disclosure and accounting, the regulation of secondary markets, the regulation of market intermediaries, enforcement, the exchange of information, and investment management. The Commission has been active in IOSCO's work related to these areas. Illustrative examples include: contingency planning; enhancements to cross-border information sharing and cooperation; combating money laundering and financial crime; the implementation and assessment of IOSCO Principles for Securities Regulation; the development and implementation of international standards for securities settlement systems; sound liquidity practices for intermediaries; and issues surrounding trading halts and indexation. In addition, the Commission has actively participated in a special IOSCO Internet Task Force that is studying issues related to the use of the Internet in securities and derivatives transactions.

- *Council of Securities Regulators of the Americas*. The Commission participates in the activities of the Council of Securities Regulators of the Americas (COSRA), an organization of securities and derivatives regulators in North and South America whose objective is the promotion of market integrity through the development of high regulatory standards. Recent projects have included investor education and enhancement of clearing and settlement standards.

Cooperative Enforcement

Domestic

The Commission's cooperative enforcement efforts are an important part of its ability to promote compliance with and deter violations of Federal commodities laws. Cooperative enforcement enables the Commission to maximize its ability to detect, deter, and impose sanctions against wrongdoers involving U.S. markets, registrants, and customers. The benefits of cooperative enforcement include: 1) the use of resources from other sources to support Commission enforcement actions; 2) coordination in filing actions with other authorities to further the impact of enforcement efforts; and 3) development of consistent and clear governmental responses and avoidance of duplication of efforts by multiple authorities.

As in the past, staff of the Enforcement program have coordinated with numerous Federal, state, and self-regulatory authorities. Historically, program staff have sought assistance from or provided assistance to various Federal agencies, such as the SEC, the U.S. Postal Inspection Service, and the Internal Revenue Service (IRS). Similarly, Enforcement program staff have provided assistance to and/or received assistance from state authorities, such as agencies responsible for the regulation of corporations, securities, and banking. The Commission also has provided Federal and local law enforcement authorities with testimony or other assistance in connection with criminal investigations. Enforcement program staff have worked with the DOJ and various U.S. Attorney's offices throughout the Nation, the FBI, the offices of numerous state attorneys general, local police authorities, and task forces focusing on areas such as boiler rooms.

Although the Commission cannot publicly describe the nature of the assistance obtained or given in connection with pending investigations, the following is a sampling of results in cooperative enforcement matters during the past year in which the Enforcement program coordinated its efforts with domestic authorities:

- United States v. Mobley. In October 2001, David Mobley, Sr. was sentenced to 17.5 years in prison for commodities fraud in connection with his operation of the Maricopa family of hedge funds in Naples, Florida. In July 2001, Mobley pled guilty to eight counts of fraud, money laundering and tax evasion arising out of the scheme alleged by the Commission in its February 2000 civil injunctive complaint against Mobley (as well as a parallel injunctive action brought by the SEC). The injunctive complaints alleged that Mobley collected more than \$140 million through a Ponzi scheme, while making false financial reports and misappropriating customer funds. The Commission had initiated contact with the FBI regarding Mobley in late 1999 and provided substantial cooperation to the FBI throughout its subsequent investigation of Mobley's financial empire. In addition to imposing the maximum allowable sentence, the sentencing order directed Mobley to pay restitution of \$77 million to his investors. *United States v. David Mobley, Sr.*, Criminal No. 2:00-CR-71-FtM-29DFN, Sentencing (S.D. Fla. October 29, 2001).
- United States v. Evergreen International Spot Trading, Inc., et al. In November 2001 in the aftermath of the September 11, 2001 terrorist attacks, an investigation of Evergreen International Spot Trading and its affiliate, First Equity Enterprises, undertaken by the Commission, the U.S. Attorney for the Eastern District of New York, and the U.S. Postal Inspection Service resulted in the indictment of both firms, which had maintained offices in the World Trade Center, and two of their principals, Gary Farberov and Andre Koudachev. In addition, Enforcement staff assisted the U.S. Attorney in seizing assets provided by Koudachev to an FCM called Impact International Trading Group. In May 2002, the U.S. Attorney filed a superceding indictment against another related entity, Forex International, Ltd., and eight other former employees of Evergreen. *United States v. Evergreen International Spot Trading, Inc., et al.*, Criminal No. 01-1243, Indictment (E.D.N.Y filed November 19, 2001).
- United States v. Juntilla. In November 2001, Dolores Galdo Juntilla was sentenced to 46 months imprisonment for wire fraud in connection with a scheme to defraud investors through two companies, Omega FX-Texas, Inc. and Omega FX-USA, that purportedly offered investors the opportunity to trade foreign exchange over the Internet but, in fact, operated as a Ponzi scheme. Enforcement program staff assisted the FBI and the U.S. Attorney in their investigation and prosecution of this matter. *United States v. Juntilla*, Criminal No. CRH-00-707-001, Sentencing (S.D. Tex., filed November 6, 2001).
- United States v. Dormagen. In December 2001, Robert L. Dormagen pled guilty to one count each of unlawful monetary transaction and false statement under oath, arising out of a commodity pool fraud and Ponzi scheme he conducted in West Virginia. Dormagen was sentenced to four years in Federal prison and ordered to pay restitution to customers of over \$850,000. The criminal action was based substantially on a prior Commission civil action filed in July 2000. In March 2002, the U.S. District Court for the Southern District of West Virginia entered a consent order of permanent injunction against Dormagen in the civil action. *United States v. Robert L. Dormagen*, Criminal No. 2:01-00093, Sentencing (S.D. W. Va. December 3, 2001).
- United States v. Khrovjak and United States v. Cochran. In December 2001, Clay Khrovjak was sentenced to two years probation and ordered to pay \$89,228 in restitution based on his earlier plea to a one-count indictment charging conspiracy to commit commodities fraud. The charge was based on

a fraudulent allocation scheme conducted by Khrovjak and others while he was employed as an in-house trader at Coastal Corporation (Coastal). Paul Cochran, another former Coastal employee, similarly pled guilty to one count of conspiracy to commit commodities fraud and currently awaits sentencing. The Commission has filed and settled a related administrative enforcement action against Khrovjak and Cochran. *United States v. Clay Krhovjak*, Criminal No. H-10-638, Sentencing (S.D. Tex entered December 5, 2001), and *United States v. Paul Cochran*, Criminal No. H-01-712, Plea Agreement (S.D. Tex. entered October 4, 2001).

- *United States v. Republic New York Securities Corporation*. In December 2001, Republic New York Securities Corporation (Republic), a registered FCM, pled guilty to a two-count indictment charging it with securities fraud and conspiracy. The charges arose out of Republic's participation in a fraudulent scheme by Martin Armstrong and his companies, Princeton Economics International Ltd. and Princeton Global Management Ltd., to hide significant trading losses in commodity futures and options and in operating a Ponzi scheme. Republic consented to the entry of an order directing it to make restitution payments of approximately \$606 million to defrauded investors throughout the world. The Commission worked cooperatively with the U.S. Attorney's Office for the Southern District of New York in this matter and coordinated the filing and simultaneous settlement of a related administrative enforcement action at the same time as the criminal action. *United States v. Republic New York Securities Corporation*, Criminal No. 01 Cr. 1180 (RCC), Criminal Plea (S.D.N.Y. December 17, 2001).
- *United States v. Jeffery T. Bailey*. In January 2002, Jeffery T. Bailey was sentenced to 27 months in prison and directed to pay restitution to investors in connection with fraudulent commodities activities after pleading guilty to charges of fraud, false reporting, and deception in connection with commodities contracts. The Commission has filed and settled a civil injunctive complaint against Bailey and JMK Capital, Inc., charging both with commodity pool fraud in connection with their diversion of \$371,670 in investor funds for Bailey's own use. The Commission engaged in cooperative enforcement with the U.S. Attorney's Office for the Southern District of Ohio and provided that office with the details of its investigation and the evidence necessary to pursue criminal charges against Bailey. *United States v. Jeffery T. Bailey*, Criminal No. CR-1-01-023, Sentencing (S.D. Ohio January 4, 2002).
- *United States v. William F. McCray*. In February 2002, Enforcement staff provided testimony to a grand jury convened in the U.S. District Court for the Southern District of California concerning the activities of Fundamental Analysis Trading and its principal, William F. McCray. The U.S. Attorney's Office subsequently obtained an indictment against McCray charging him with fraudulent solicitation of customers for foreign currency trading. According to the indictment, McCray and Richard M. Owen defrauded investors of over \$1 million through their scheme. McCray also was charged with sending almost \$6 million to an offshore account in Bermuda and misappropriating some of the funds for personal use. The indictment charges McCray with one count of mail fraud and 12 counts of wire fraud. Owen pled guilty to one count of wire fraud. *United States v. William F. McCray*, Criminal No. 02-CR-332-L, Indictment (S.D. Cal. unsealed February 11, 2002).
- *United States v. Laken, et al.* and *United States v. Lino, et al.* In February 2002, Glenn B. Laken was convicted of several felony counts, including illegal pension kickbacks, wire fraud, securities fraud, racketeering, and stock promotion fraud in connection with his activities as principal manager of a

commodities and securities hedge fund called the Trade Venture Fund. The indictment included allegations that Laken intended to churn a commodities account and use the proceeds to pay kickbacks to corrupt union officials. Laken subsequently pled guilty to an additional securities fraud count from a second Federal indictment and was sentenced in August 2002. Enforcement staff assisted the U.S. Attorney's Office for the Southern District of New York in preparing for trial. Pending resolution of the criminal proceedings against Laken, his registration has been suspended pursuant to Section 8a(11) of the CEA. *United States v. Laken, et al.*, Criminal No. 00 CR 651, Indictment (S.D.N.Y. filed June 12, 2000); and *United States v. Lino, et al.*, Criminal No. 00 CR 632, Indictment (S.D.N.Y. filed June 7, 2000).

- *United States v. Marantette*. In February 2002, David T. Marantette, III, operator of Troubadour, Inc., pled guilty to one count of mail fraud in connection with his fraudulent solicitation of members of the public to invest in unregistered commodity pools and/or to use his commodity trading advisory services and products by making material misrepresentations about his trading record and failing to mention that he had been barred from the securities industry. The Commission had previously filed a civil injunctive action against Marantette and Troubadour based on the same conduct that was the subject of Marantette's plea agreement, which led to the entry of a permanent injunction against Marantette and Troubadour. *United States v. David T. Marantette, III*, Criminal No. 02-00043HG, Memorandum of Plea Agreement (D. Hawaii filed Feb. 13, 2002).
- *United States v. Knipping* and *United States v. Time Traders, Inc.* In February 2002, Edward Knipping was sentenced to 70 months in prison and his company, Time Traders, Inc., was sentenced to five years probation. On May 7, 2002, the court entered individual restitution judgments against Knipping and TimeTraders, Inc. of over \$3.4 million each. This matter arose out of the same corpus of facts alleged by the Commission in a prior civil injunctive action that led to the entry of an order of permanent injunction against Knipping and Time Traders. *United States v. Edward Knipping*, Criminal No. CR 01-74-P-H, Sentencing (D. Maine February 15, 2002); *United States v. Time Traders, Inc.*, Sentencing, Criminal No. CR 01-74-P-H (D. Maine February 15, 2002).
- *United States v. Garbe*. In March 2002, a grand jury indicted Ulrich G. Garbe, the chief investment officer of SunState FX, Inc. (SunState), charging wire and mail fraud in connection with a fraudulent scheme that purportedly offered investors the opportunity to trade foreign currency contracts. The Commission previously filed a civil injunctive action against Garbe and SunState charging them with fraudulently soliciting for an unregistered commodity pool and misappropriating \$1 million of customer funds. As part of a coordinated cooperative enforcement effort, the SEC also filed a civil injunctive action against SunState and Garbe for violations of the Federal securities laws arising out of the same facts that form the basis for the Commission's action and the subsequent indictment. *United States v. Ulrich G. Garbe*, Criminal No. 02-80055-CR-Ferguson, Indictment (S.D. Fla. filed March 3, 2002).
- *United States v. Fernandez, et al.* In March 2002, Valentin Fernandez and Daniel J. Phillips pled guilty to an 85-count indictment charging them with securities fraud, wire fraud, mail fraud, financial and monetary transactions with proceeds from specified unlawful activities, and conspiracy. The charges arose in part from defendants' operation of International Currency Strategies, Inc. (ICS), through which Fernandez and Phillips fraudulently marketed

purported foreign currency options to the public. The Commission previously had filed a civil injunctive action against ICS, Fernandez, and Phillips charging them with fraudulently telemarketing illegal foreign currency options and misappropriating customer funds, which led to the entry of consent permanent injunctions ordering Phillips and Fernandez to pay any deficiency between the restitution awarded in the criminal action and the approximately \$1.06 million that the court found to be appropriate. The Commission worked cooperatively with the U.S. Attorney's Office for the Southern District of Florida in this matter and coordinated the filing of its injunctive action at the same time as the criminal action. Criminal No. 01-CR-8060, Guilty Plea (S.D. Fla. filed March 6, 2002).

- Michael A. Dippolito. In March 2002, Michael A. Dippolito was arrested by the Broward County Sheriff's Office in Florida and charged with telemarketing fraud for his alleged activities related to Myers, Arnold, Davidson, Inc. (MAD) and Copper, Thomas, Unger, Inc. (CTU). In February 2002, the Commission filed a civil injunctive action against Dippolito, MAD, and CTU alleging fraudulent sales of foreign currency options and misappropriation of customer funds, which led to the entry of a default judgment for permanent injunction directing defendants to make restitution payments to defrauded customers in the amount of \$229,615. The Commission worked in conjunction with the Florida State Comptroller's Office in coordinating the investigation and in filing its injunctive action. The Commission also worked cooperatively with the Florida State Attorney's Office and the Broward County Sheriff's Office in connection with the filing of the criminal case. See "Arrest Search," Broward County Sheriff's Office <<http://www.sheriff.org>>.
- United States v. Berzins. In April 2002, Peter Berzins was sentenced to 24 months in prison and three years of supervised release following his conviction for mail, wire and commodities fraud and interstate transportation of stolen property obtained by fraud, all relating to a commodity pool fraud that he had perpetrated. Berzins' fraudulent conduct had been the subject of a prior Commission civil injunctive action, which led to the entry of a consent order of permanent injunction against Berzins. In the criminal sentencing, Berzins was required, as a condition of his supervised release, to pay the restitution amount that had been awarded in the Commission's action. Enforcement staff provided assistance to the U.S. Attorney's Office for the District of Maryland and the FBI in developing the criminal case against Berzins. Criminal No. PJM-01-0353, Sentencing (D. Md. entered April 16, 2002).
- CFTC and the State of Utah v. 4NExchange, LLC, et al. In May 2002, the Commission filed of a civil injunctive action against 4NExchange, LLC, Paul Grant, and Ronald Bassett, charging them with illegally offering foreign currency futures contracts and with operating a nearly \$15 million Ponzi scheme. The State of Utah joined in the Commission's complaint, charging that defendants operated an unregistered investment company and committed fraud in violation of the Utah Code. As part of a coordinated cooperative enforcement effort, the SEC filed a related civil injunctive action against defendants for violations of the Federal securities laws arising out of the same underlying facts. The FBI, in cooperation with other Federal, state and local law enforcement authorities, obtained a search warrant that it executed immediately after the filing of the civil actions. No. 2 02CV-432, Complaint for Injunctive and Other Equitable Relief under the Commodity Exchange Act and Utah Code (D. Utah filed May 2, 2002).
- State of Florida v. Luger. In June 2002, the Commission filed of a civil injunctive action charging David Luger with violating a prior Commission order

by providing false information and failing to provide information required in connection with the settlement of a complaint alleging that Luger fraudulently solicited customers to open commodity option trading accounts. The Florida Office of Statewide Prosecution assisted the Commission in connection with this matter. Enforcement staff provided cooperation to the Florida authorities regarding their criminal indictment of Luger in connection with fraudulent foreign exchange dealings. No. 01-4626 CFB 02, Amended Information (Fla. filed May 29, 2002) and No. 02-11102 CF 02, Information (Fla. filed September 24, 2002).

- *State of Louisiana, ex rel. Richard P. Ieyoub v. Global Financial Consultants, Inc., et al.* In June 2002, the Commission filed a civil injunctive action alleging that Offshore Financial Consultants, Global Financial Consultants, International Currency Merchants, and several individual defendants fraudulently offered illegal foreign currency options to retail customers. The complaint also alleged that a number of relief defendants received funds or otherwise benefited from funds that were directly traceable to the fraud and should be required to return those funds. The Commission received assistance from the Louisiana Attorney General's Office and the Florida Comptroller's Office in its investigation of this matter. In a related action, the Louisiana Attorney General announced the filing of a suit against Global Financial Consultants, Inc., Elaine Kazanas, and Stephen DeLong in Louisiana State Court, 24th Judicial District Court, Parish of Jefferson.
- *United States v. O'Herron.* In July 2002, John F. O'Herron pled guilty to felony mail fraud charges arising in part from O'Herron's fraudulent misrepresentations to commodity pool investors and misappropriation of investor funds to pay for personal expenses. The Commission previously filed a related civil injunctive action arising from many of the same facts and alleging that O'Herron fraudulently operated a commodity pool, misappropriated funds, and failed to register as a CPO. Criminal No. 1:02-CR-160, Guilty Plea (W.D. Mich. entered July 8, 2002).
- *In re Pierce.* In July 2002, the Commission filed an administrative complaint against Stephen Alan Pierce, a registered CTA, alleging that he fraudulently solicited customers to purchase trading recommendations using misleading advertising on the Internet. The complaint was brought as part of the Federal Trade Commission's Midwest Netforce Fraud Initiative, in which the Commission joined four other Federal agencies, 11 state attorneys' general, and 20 state and local law enforcement agencies in targeting potential Internet scam artists who seek to bilk consumers. Over the last two years, the Commission has brought over 20 Internet actions as a result of its "Internet sweeps," including sweeps conducted in conjunction with other regulatory and law enforcement authorities. CFTC Docket No. 02-15 (CFTC filed July 30, 2002).

The following Commission cases were filed during FY 2002 with cooperative assistance from others and are discussed in detail in the FY 2002 Performance Report.

- *CFTC v. Snively, et al.* The Commission, assisted by the NFA, filed a civil injunctive action alleging fictitious trading. No. 02-40041 (E.D. Mich. filed Feb. 8, 2002).
- *CFTC v. Wiles, et al.* The Commission, with the assistance of the U.S. Attorney's Office for the Northern District of Texas, filed a civil injunctive action

alleging fraudulent solicitation for futures trading and misappropriation of customer funds. No. 3-02CV 0951G (N.D. Texas filed May 6, 2002).

- CFTC v. Gahma Corporation et al. The Commission, with the assistance of the Utah Department of Commerce, filed a civil injunctive action alleging fraudulent operation of a commodity pool. No. 1:02CV00101 PGC (D. Utah filed August 13, 2002).
- CFTC v. First Bristol Group, Inc., et al. The Commission, with the assistance of the Florida State Comptroller's Office, Broward County Sheriff's Office, and Broward County State Attorney's Office, filed a civil injunctive action alleging fraudulent solicitation of customers to invest in illegal off-exchange foreign currency futures and options as well as other futures contracts. No. 02-61169-Civ-Lenard (S.D. Fla. filed August 16, 2002).
- CFTC v. O'Neill, et al. The Commission, with the assistance of the FBI and the U.S. Attorney's Office for the Southern District of Florida, filed a civil injunctive action alleging fraudulent solicitation and misappropriation with respect to illegal off-exchange foreign currency trading. No. 02-61307-Civ-Gold (S.D. Fla. filed September 17, 2002).

International

The Commission continues to coordinate enforcement activities with foreign authorities. During FY 2002, the Commission made 77 requests for assistance to foreign authorities, and it received 21 requests from authorities in foreign jurisdictions. The information exchanged between the Commission and foreign authorities has included registration and disciplinary histories of U.S. and foreign firms and individuals as well as evidence, including testimony and bank and brokerage account records, for use in investigations and enforcement actions.

The Commission's international information-sharing arrangements enable the Commission and foreign authorities to engage in the bilateral sharing of information and, in certain circumstances, to assist each other in the investigation of potential wrongdoing that extends beyond their respective borders. During FY 2002, the Commission entered into three information-sharing arrangements with foreign authorities:

- Statement of Intent—The Japanese Financial Services Agency. On May 17, 2002, the Commission and the SEC signed a Statement of Intent Concerning Cooperation, Consultation, and the Exchange of Information regarding cross-border investigations of potential violations of securities and futures laws with the Japanese Financial Services Agency. The statement provides a framework for the authorities to share information and to extend assistance to one another in collecting information and conducting investigations.
- Memorandum of Understanding—The Jersey Financial Services Commission. On May 30, 2002, the Commission and the SEC signed an Memorandum of Understanding Concerning Cooperation, Consultation, and the Exchange of Information with the Jersey Financial Services Commission, Jersey's securities and futures regulator. The memorandum establishes a procedure for information sharing and facilitates cooperation in cross-border investigations of potential violations of futures and securities laws. Following the statement of intent with the Japanese Financial Services Agency, this was the 21st formal bilateral enforcement arrangement that the Commission has entered into with its counterparts in other countries.

- Multilateral Memorandum of Understanding—Securities and Derivatives Regulators. Following the terrorist attacks of September 11, 2001, the International Organization of Securities Commissions (IOSCO) created a Special Project Team to explore enhancing cross-border cooperation and information sharing. The Special Project Team created an IOSCO Multilateral Memorandum of Understanding Concerning Consultation, Cooperation and the Exchange of Information. The memorandum builds on existing IOSCO Resolutions and Principles to establish an international benchmark for cooperation and information sharing. The Multilateral Memorandum of Understanding was endorsed by IOSCO in May 2002.

During FY 2002, Enforcement program staff also continued to participate in the Standing Committee on Enforcement and Information-Sharing (SC4) of the Technical Committee of IOSCO. SC4 considers issues and formulates recommendations relating to international assistance in the detection, investigation, and prosecution of securities and futures violations.

Other Cooperative Enforcement Efforts

In addition to direct cooperation with domestic law enforcement and regulatory authorities, the Enforcement program also represents the Commission in a variety of domestic and international efforts, including task forces and working groups designed to keep market participants abreast of new developments in financial crimes and to coordinate governmental responses to common issues. Several examples of the efforts of the Enforcement program in this area follow:

- Anti-Money Laundering. The Commission participates in domestic and international anti-money laundering cooperative enforcement efforts. On the domestic front, the Commission is a member of the Money Laundering Strategy Working Group and the U.S. Treasury Department's Bank Secrecy Act Advisory Group, and Commission staff are consulting with staff of the U.S. Treasury Department in developing regulations as required by the USA PATRIOT Act enacted in response to the terrorist attacks of September 11, 2001. Internationally, the Commission has aided the U.S. delegation to the Financial Action Task Force (FATF), including its efforts to combat global terrorist financing.
- Telemarketing and Internet Fraud Working Group. The Telemarketing and Internet Fraud Working Group consists of representatives from state, Federal, and international regulatory and criminal authorities. At the working group's quarterly meetings, members discuss all aspects of telemarketing and Internet fraud, including issues such as new scams, new uses of technology, geographical hotspots for certain types of fraudulent activity, effective enforcement techniques, and recent cases that establish relevant precedent in this area.
- Consumer Protection Initiatives Committee. The Consumer Protection Initiatives Committee was created by the Attorney General's Council on White-Collar Crime to coordinate activities of various agencies' consumer protection programs. Goals of the committee include: 1) minimizing duplication of consumer protection efforts by sharing information on various fraud prevention and enforcement initiatives; 2) developing interagency consumer protection initiatives focusing on enforcement, deterrence, and public awareness; and 3) facilitating referrals of cases with strong criminal implications to the DOJ and U.S. Attorney's Offices in order to better address consumer fraud issues.
- Securities and Commodities Fraud Working Group. The Securities and Commodities Fraud Working Group is a vehicle for public and private sector

participants to discuss current trends in financial crime in the securities, futures, and option industries and to exchange ideas about enforcement techniques. The group, organized by the Fraud section of the Criminal Division of the DOJ, meets on a quarterly basis, and its members include criminal and regulatory authorities from state and Federal agencies and representatives from various exchanges and other SROs.

U.S. Treasury Department Financial Stability Agenda

The Commission contributes to the initiatives of the U.S. Treasury Department to encourage global financial stability as called for in the 1997 Denver Statement of the Group of Seven Industrialized Nations (G-7) Heads of State and Government. Since the Denver Summit, the G-7 has focused on a range of measures to promote stability in the international financial system, including organizing the FSF to further issues in connection with the international financial architecture. The Commission has commented on various position papers prepared by the FSF. The Commission also provided comment to the U.S. Treasury Department on World Trade Organization (WTO) negotiation position papers and on negotiations of a free trade pact with Chile.

U.S. Department of Energy

In recent years with the continued development of trading in energy-related derivatives, the Commission and its staff have established working relationships with the staff of the U.S. Department of Energy. Most recently, Commission staff have been assisting the Energy Information Administration of the U.S. Department of Energy with a study of energy markets. The study will generally describe the structure and activity in the cash and derivative markets for oil, gas, and electricity and will describe the nature of Federal oversight of firms in these industries and the markets for these commodities.

Executive Direction & Support

The Commission participates in external groups and professional organizations to enhance its ability to remain informed about the latest advances in technology and administrative policies and practices both in the Federal and private sectors. Examples include:

Office of the Executive Director

OED actively participates in the Small Agency Council, an organization of approximately 70 small Federal agencies that promotes cooperation and provides a mechanism for sharing information and expertise on administrative management.

In FY 2002, OED coordinated with many government and private organizations to respond to the events of September 11, 2001. The working relationships previously established and newly formed helped the Commission to: 1) quickly provide counseling to employees; 2) ensure that New York employees received all the benefits and support needed; 3) procure temporary and permanent space in New York; 4) secure temporary and permanent phone and computer support; and 5) build out space and procure supplies, services, and equipment in time for a late April 2002 move in date to a new permanent New York office. OED also supported the move of the Commission's Chicago regional office to new space.

In addition, OED has supported the efforts of the Chairman to reorganize staff to implement the CFMA, including space planning and coordination with NFC and other administrative systems and to hire his new executive team. OED also continued its teambuilding efforts during FY 2002, evaluating its efforts to date and providing additional training and support. Among the outgrowths of the teambuilding effort was the development of a new time off award, a series of morning coffees, brown bag lunches on a number of topics, and a study of the future direction of OAS. OED has also undertaken a project to make all paper forms, including those issued by the General Services Administration (GSA) and OPM, available to employees online and has enhanced the use of tools with which employees can manage their benefits online.

Office of Financial Management

OFM is active in the U.S. Treasury Department's Financial Management User's Group, the GSA Interagency Travel Management Committee, and the Travel Manager Interagency User Group. In addition, OFM attended the National Travel Conference sponsored by GSA, the GSA Smartpay Conference, various seminars on Federal financial systems, travel systems, relocation services, etc. Participation and attendance in these groups and seminars enables the Commission to stay abreast of developments and trends in Federal financial management. In addition, attendance at conferences and seminars gives OFM staff the opportunity to establish points-of-contact with other agency personnel, exposing OFM to how other agencies and financial organizations address and implement new initiatives and changing system requirements. In FY 2003 and FY 2004, OFM will continue to stay informed of future initiatives for Federal financial management.

Office of Human Resources

Participatory working relationships maintained by OHR foster support of management initiatives. In providing a wide variety of services to managers and employees, OHR continued its active engagement in a number of interagency organizations. The relationships established include:

- Committee for Automated Payroll/Personnel System. This committee was formed to promote efficiency and effectiveness through enhanced system design and operations of the USDA's NFC.
- Human Resources Development Policy Subcommittee. This is a working group of training officers who review, develop, interpret, and provide guidance on Federal government training policy.
- Interagency ADR Working Group. This group encourages agencies to use ADR techniques in resolving workplace disputes.
- International Personnel Management Association. This is a professional association that serves as a reference in obtaining current human resource information in the Federal government.
- National Academy of Public Administration, Center for Human Resources Management. This center brings together more than 50 agencies to generate cost-effective research, information, educational programs, and consulting services throughout the public sector.
- National Council of Hispanic Employment Program Managers. This is a working group established to promote equal employment opportunity for Hispanics in the Federal workplace.

FY 2004 President's Budget

- OPM. OPM established interagency network groups to collect agency input on employment trends and on human resources initiatives and proposals.
- Shared Neutrals. The shared neutrals program offers reciprocal mediation services and ADR among Federal agencies.
- Small Agency Council on Training. This consortium provides training opportunities to employees of member small agencies.
- Small Agency Human Resources Council. This group assesses how various human resources laws, regulations, and OPM policies impact small agencies.

Information Resources Management

OIRM is a member of the Small Agency Information Resources Management Council. This council is the small agency counterpart to the Federal government's Chief Information Officers Council for large agencies. The small agency's council supports Federal information technology professionals as they develop robust information technology programs within their respective agencies. Both best practices and lessons learned are shared among members so that they may better implement the information technology guiding principles and regulatory requirements of OMB, GAO, and Congress.

OIRM is a member of the FBIIC, one of several committees that support the mission of the Critical Infrastructure Protection Board (CIPB). The CIPB, an organization within the Office of Cyber Security, is structured around eight critical sectors, including the financial services sector with which the FBIIC is associated. The membership of the FBIIC includes the U.S. Treasury Department, which chairs the committee, the Commission, the Conference of State Bank Supervisors (CSBS), the FDIC, the FRB, the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency, the Office of Federal Housing Enterprise Oversight, the OTS, and the SEC. Issues to be considered by the FBIIC and its staff include establishment of a secure communications network for use in the event of a disaster that impacts the financial sector; development and coordination of "continuity of operation plans" for financial regulators; and acquisition of and policy development for distribution of priority rights for access to public communications networks and restoration of damaged circuits.

During FY 2002, the FBIIC has focused its efforts on the provision of top secret clearances for appropriate staff and the establishment of secure communications capabilities for its members, including voice, fax, and teleconferencing. The FBIIC is also facilitating the development of "continuity of operations" through information sharing among its members.

OIRM also belongs to the FTS 2001 Coordinators Group and the Definity Users Group. Both groups deal with telecommunications issues. The FTS 2001 group provides a means to communicate governmentwide issues to the commercial phone services companies, such as Sprint and MCI. The Definity Group provides a vehicle for communicating with other Lucent Definity phone system users.

Office of Management Operations

OMO is working with the GSA and the Federal Protective Service regarding their assistance in case of an emergency. OAS is establishing a contract with GSA for guard service on the Commission's public floor.

OMO continues its work with the Federal Communications Commission (FCC), Pension Benefit Guaranty Corporation, and other small agencies regarding enhancing security and streamlining business processes.

Commission Library

The library is a member of the Federal Library and Information Center Network (FEDLINK), a group that negotiates contracts with vendors of library materials and services on behalf of all Federal libraries. FEDLINK is also the mode by which the Commission Library accesses the Online Computer Library Center (OCLC), a worldwide shared cataloging and interlibrary loan network. The library also participates in the Metropolitan Library Network and the Law Librarians Society of Washington, D.C., a network that permits rapid location and use of documents not held by the Commission.

Office of the Inspector General

The Inspector General is an active participant on the Executive Council on Integrity and Efficiency, an organization of agency-appointed Inspectors General that meets regularly to discuss common problems and solutions.

APPENDIX

The Commissioners

James E. Newsome, Chairman

James E. Newsome was confirmed by the U.S. Senate on December 20, 2001, to serve as Chairman of the CFTC. He was sworn in on December 27, 2001, to a term expiring in June 2006. Chairman Newsome has served as a Commissioner of the CFTC since August 10, 1998, and as Acting Chairman from January 20, 2001, until becoming Chairman.

Prior to joining the CFTC, Chairman Newsome served for nine years as Executive Vice-President of the Mississippi Cattlemen's Association and Beef Council. Additionally, he served as Chairman of the Mississippi Agribusiness Council, which is devoted to the development of domestic and international agribusiness opportunities within the state of Mississippi.

Chairman Newsome's involvement in agriculture led to his association with numerous organizations in both Mississippi and his home state of Florida. He has served as President of the Association of Mississippi Agriculture Organizations; as a member of the Governor's Task Force on the Future of Mississippi Agriculture and the Governor's Task Force on the Future of Florida's Small Farms; as a Delegate to the National Council for Agriculture Research, Extension and Teaching; as President of the Florida Future Farmers of America; and as President of the University of Florida Agriculture Council.

Since joining the Commission, Chairman Newsome has actively encouraged industry participation in regulatory initiatives, and has served as Chairman of the CFTC's TAC. His conservative approach to Commission responsibilities has been open and inclusive and has contributed to major regulatory reform of the U.S. futures and derivatives markets.

A native of Plant City, Florida, Chairman Newsome received his B.S. degree in Food and Resource Economics from the University of Florida and his M.S., and Ph.D. degrees in Animal Science/Agricultural Economics from Mississippi State University. He is married to the former Mary Margaret Pomeroy of Carmel Valley, California and they have two daughters.

Barbara P. Holum, Commissioner

Barbara Pedersen Holum was nominated to be a Commissioner of the CFTC by President Clinton on November 8, 1993, confirmed by the Senate on November 19, 1993, and sworn in on November 28, 1993. On December 23, 1993, she was elected by seriatim order of the Commission to serve as Acting Chairman. Ms. Holum served in this capacity until October 12, 1994. She was appointed Chairman of the Advisory Committee on CFTC-State Cooperation on March 14, 1994, and appointed Chairman of the GMAC on March 10, 1998. Commissioner Holum was confirmed by the Senate on July 31, 1998, and sworn in on August 4, 1998, to serve a second term as Commissioner at the CFTC.

Prior to joining the CFTC, Ms. Holum was President of the National Agricultural Lands Center, a non-profit private organization, which administers agricultural resource conservation programs and projects. Ms. Holum's government posts include serving as the Director of Congressional Liaison for the CFTC during

President Carter's administration and as the Congressional Liaison Officer for the National Agricultural Lands Study.

Ms. Holum was raised in Boelus, Nebraska. She was educated at the University of Nebraska and the University of Denver. Ms. Holum and her husband John reside in Annapolis, Maryland.

Walt Lukken, Commissioner

Walt Lukken was sworn in on August 7, 2002 as a Commissioner of the CFTC. He was nominated by President George W. Bush on April 16, 2002, and confirmed by the Senate on August 2, 2002, to a term expiring April 13, 2005.

Mr. Lukken joins the Commission after having served four years on the professional staff of the U.S. Senate Agriculture Committee under Ranking Member Richard Lugar. While working for the committee, Mr. Lukken specialized in futures and derivatives markets, agricultural banking, and agricultural tax issues. Before joining the committee, Mr. Lukken worked for five years in the personal office of Senator Lugar as a legislative assistant specializing in finance and tax matters.

A native of Richmond, Indiana, Mr. Lukken received his B.S. degree with honors from the Kelley School of Business at Indiana University, and his Juris Doctor degree from Lewis and Clark Law School in Portland, Oregon. Mr. Lukken is a member of the Illinois Bar.

Sharon Brown-Hruska, Commissioner

Sharon Brown-Hruska was sworn in as Commissioner of the CFTC on August 7, 2002. Dr. Brown-Hruska was nominated by President George W. Bush on April 9, 2002, and confirmed by the Senate on August 2, 2002, to a term expiring April 13, 2004.

Dr. Brown-Hruska came to the Commission from George Mason University, where she was an Assistant Professor of Finance in the School of Management. Prior to joining the faculty at George Mason University, she taught at Tulane University and Virginia Polytechnic Institute and State University (Virginia Tech). Courses taught by Professor Brown-Hruska included Risk Management and Financial Innovation, International Finance, Venture Capital and Private Finance, Investments, and Financial Markets.

From 1990 to 1995, Dr. Brown-Hruska was a staff economist in the CFTC's Division of Economic Analysis, where she conducted policy and technical research in the areas of anti-competitive behavior and market microstructure of futures, options, and derivatives markets.

Dr. Brown-Hruska has authored numerous scholarly papers and publications based on her extensive research in the areas of derivatives and market microstructure. In her writings, she has considered how differences in market structure and regulation affect market quality and the competitive environment in derivatives and their underlying asset markets.

A native of Winchester, Virginia, Dr. Brown-Hruska received her B.A. in economics and international studies in 1983, her M.A. in economics in 1988, and her Ph.D. in economics in 1994 from Virginia Tech in Blacksburg, Virginia.

Commodity Futures Trading Commission

Growth in Volume of Futures & Option Contracts Traded & FTEs

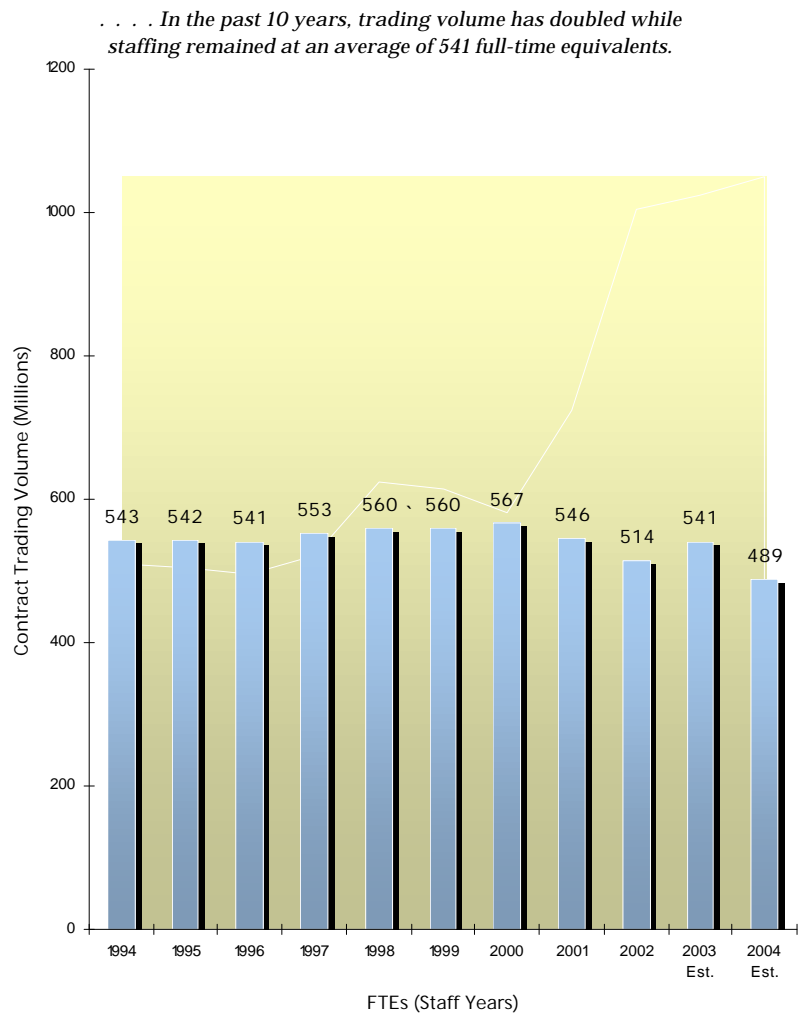


Figure 29: Growth of Volume of Contracts Traded and FTEs

Commodity Futures Trading Commission

Actively Traded Futures & Option Contracts

The number of actively traded contracts traded on U.S. exchanges has almost doubled in the last decade, 1991-2000.

The number is expected to grow to 400 contracts by FY 2004.

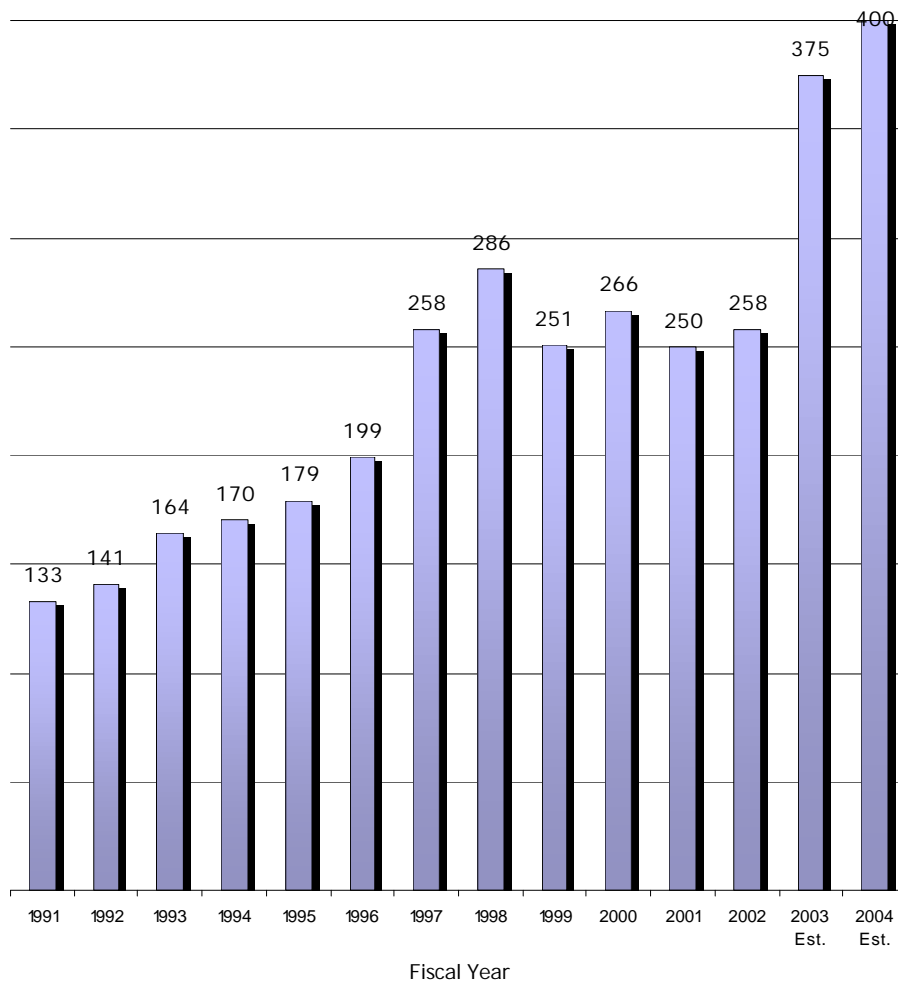


Figure 30: CFTC Actively Traded Contracts

Commodity Futures Trading Commission

Number of Registered Commodities Professionals

Companies and individuals who handle customer funds or give trading advice must apply for registration through the NFA, an SRO to which the Commission has delegated that responsibility subject to CFTC oversight.

The Commission regulates the activities of over 66,300 registrants:

<u>Type of Registered Professional</u>	<u>Number in Sept 2002</u>
<i>Associated Persons (AP) (Sales People)</i>	<i>49,988</i>
<i>Commodity Pool Operators (CPOs)</i>	<i>1,959</i>
<i>Commodity Trading Advisors (CTAs)</i>	<i>2,690</i>
<i>Floor Brokers (FBs)</i>	<i>8,644</i>
<i>Floor Traders (FTs)</i>	<i>1,310</i>
<i>Futures Commission Merchants (FCMs)</i>	<i>192</i>
<i>Introducing Brokers (IBs)</i>	<i><u>1,595</u></i>
<i>TOTAL</i>	<i><u>66,378</u></i>

Table 19: Number of Registered Commodities Professionals

Commodity Futures Trading Commission

Customer Funds in Futures Commission Merchants Accounts

From 1995 through 2002, the amount of customer funds held in FCM accounts has almost doubled.

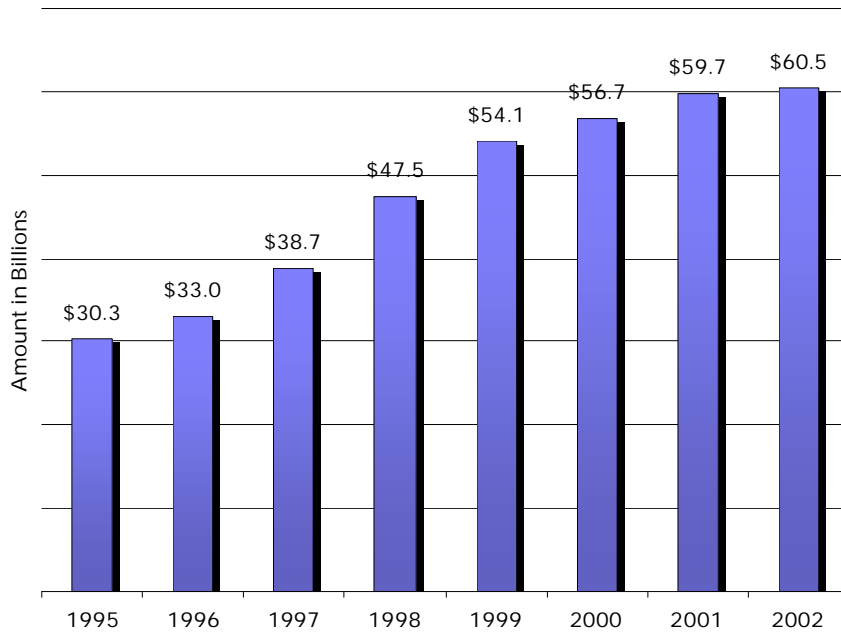


Figure 31: Customer Funds in FCM Accounts

Commodity Futures Trading Commission

CFTC-Regulated Commodity Exchanges*

Amarillo, TX

- *FutureCom (FCOM)*

Cambridge, MA

- *OnExchange Board of Trade (ONXBOT)*

Chicago, IL

- *Chicago Board of Trade (CBT)*
 - MidAmerica Commodity Exchange (MCE)
- *Chicago Mercantile Exchange (CME)*
- *Merchants' Exchange (ME)*
- *OneChicago Futures Exchange (OCX)*

Jersey City, NJ

- *BrokerTec Futures Exchange (BTEX)*

Kansas City, MO

- *Kansas City Board of Trade (KCBT)*

Minneapolis, MN

- *Minneapolis Grain Exchange (MGE)*

New York, NY

- *Cantor Financial Futures Exchange (CFFE)*
- *Island Futures Exchange (IFE)*
- *Nasdaq LIFFE, LLC Futures Exchange (NQLX)*
- *New York Board of Trade (NYBT)*
 - Coffee, Sugar, and Cocoa Exchange (CSCE)
 - New York Cotton Exchange (NYCE)
 - New York Futures Exchange (NYFE)
 - Citrus Associates of the New York Cotton Exchange (CANYCE)
- *New York Mercantile Exchange (NYMEX)*
 - Commodity Exchange Division (COMEX)

Philadelphia, PA

- *Philadelphia Board of Trade (PBT)*

* CFTC-regulated commodity exchanges include only exchanges with non-dormant contracts.

Commodity Futures Trading Commission

CFTC-Registered Derivatives Clearing Organizations

Cambridge, MA

- *OnExchange Clearing Corporation*

Chicago, IL

- *Board of Trade Clearing Corporation (BOTCC)*
- *Chicago Mercantile Exchange (CME) Clearinghouse*
- *The Options Clearing Corporation (OCC)*

Houston, TX

- *EnergyClear Corporation*

Jersey City, NJ

- *BrokerTec Clearing Company LLC (BCC)*

Kansas City, MO

- *Kansas City Board of Trade (KCBT) Clearing Corporation*

Minneapolis, MN

- *Minneapolis Grain Exchange (MGE) Clearinghouse*

New York, NY

- *New York Clearing Corporation (NYCC)*
- *New York Mercantile Exchange (NYMEX) Clearinghouse*

Philadelphia, PA

- *Intermarket Clearing Corporation (ICC)*

United Kingdom

- *London Clearing House (LCH)*

FY 2004 President's Budget

Commodity Futures Trading Commission

Statement of Obligations & Employment by Geographic Location

<u>Location of Obligations (Millions):</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
California	\$2.2	\$2.1	\$0.0
District of Columbia	43.8	49.4	56.0
Illinois	13.8	16.2	17.3
Minnesota	0.3	0.1	0.4
Missouri	0.8	0.7	1.1
New York	14.4	11.4	13.6
Total Direct Obligations	\$75.3	\$79.9	\$88.4

<u>Location of Employment (Staff -Years):</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
California	16	14	0
District of Columbia	309	334	310
Illinois	100	110	96
Minnesota	2	1	2
Missouri	6	5	6
New York	76	77	75
Total Staff Years	509	541	489

Commodity Futures Trading Commission

Summary of Futures & Option Trading in FY 2001 and FY 2002

Futures—Average Monthend Open Interest, Number of Contracts Traded and Number of Contracts Settled by Delivery or Cash Settlement by Major Groups, All Markets Combined from FY 1996 through FY 2002

Fiscal Year	Total	Grain	Oilseed Products	Livestock Products	Other Agriculturals	Energy/Wood Products	Metals	Financial Instruments	Currencies
Average Monthend Open Interest (In Contracts)									
1996	6,671,956	594,283	383,027	149,110	357,039	707,515	368,788	3,776,614	335,580
1997	7,035,190	484,878	378,005	158,554	399,845	793,050	355,152	4,052,556	413,150
1998	8,734,778	561,316	419,055	156,097	425,208	969,274	351,300	5,337,352	515,176
1999	8,927,497	581,590	420,159	178,617	395,387	1,140,329	361,265	5,372,623	477,527
2000	8,940,241	683,946	424,364	200,228	440,779	1,014,794	318,505	5,454,917	402,708
2001	10,225,194	686,902	435,295	185,850	428,695	1,089,204	285,622	6,692,181	421,445
2002	11,564,713	680,585	471,915	144,651	460,053	1,224,008	316,590	7,820,188	446,723
Number of Contracts Traded									
1996	394,182,422	30,217,442	25,591,703	7,048,534	12,018,522	46,891,524	16,938,969	234,261,790	21,213,938
1997	417,341,601	25,507,498	27,132,483	7,550,556	13,190,755	51,512,419	17,093,481	250,143,412	25,210,997
1998	500,676,345	26,139,949	26,854,245	7,385,569	14,039,615	61,705,146	17,044,818	319,916,653	27,590,350
1999	491,137,790	26,860,264	25,625,245	7,438,875	13,753,993	72,941,764	17,294,322	303,664,764	23,558,563
2000	477,760,141	27,415,057	24,663,381	6,840,029	13,806,793	74,065,666	13,920,393	297,039,566	20,009,256
2001	581,132,590	27,486,353	24,695,092	7,000,070	12,559,799	72,476,055	12,447,907	404,345,668	20,121,646
2002	790,072,208	29,173,459	27,880,738	6,698,307	13,657,673	86,831,098	14,282,236	588,801,346	22,747,351
Number of Contracts Settled by Delivery/Cash Settlement									
1996	2,890,167	38,226	172,442	13,384	39,406	87,777	132,507	1,903,974	502,451
1997	3,559,079	36,589	148,703	29,683	38,015	119,505	129,977	2,385,886	670,721
1998	4,186,906	131,357	116,412	42,230	31,826	129,566	163,894	2,705,700	865,921
1999	3,631,916	120,775	106,364	44,129	32,282	131,905	128,557	2,230,017	837,887
2000	4,533,590	148,164	138,900	44,351	68,902	107,379	152,087	3,151,497	722,310
2001	5,525,312	156,272	134,347	43,775	68,181	84,607	179,714	4,139,614	718,802
2002	6,224,018	111,052	80,944	31,717	71,237	104,654	220,320	4,952,795	651,299

FY 2004 President's Budget
Futures—Contract Market Review/Average Open Interest, 12-Month Volume of Trading and Deliveries/Cash Settlement by Commodity and Exchange for Fiscal Years Ending September 30, 2001 and September 30, 2002

Exchange/Commodity	Contract Unit	Average Monthend		Volume of		Total Contracts Settled by Delivery or Cash	
		Open Interest (Contracts)		Trading (Contracts)		Settlement (Contracts)	
		2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
Brokertec Futures Exchange (BTEX)							
U.S. Treasury Bonds	\$100,000 F.V.	0	4,069	0	662,465	0	3,839
10-Year U.S. Treasury Notes	\$100,000 F.V.	0	7,975	0	405,070	0	5,313
5-Year U.S. Treasury Notes	\$100,000 F.V.	0	8,597	0	272,890	0	738
Total BTEX		0	20,641	0	1,340,425	0	9,890
Chicago Board of Trade (CBT)							
Wheat	5,000 Bu.	140,334	112,431	6,630,041	6,888,867	57,321	23,259
Corn	5,000 Bu.	422,759	447,272	16,727,911	17,783,077	52,006	41,974
Oats	5,000 Bu.	13,453	11,337	383,591	473,984	4,180	1,081
Rough Rice	200,000 Lbs.	4,630	7,159	126,356	172,409	3,271	7,786
Soybeans	5,000 Bu.	162,444	179,159	12,002,149	13,919,502	15,799	13,133
Soybean Oil	60,000 Lbs.	144,708	147,468	5,673,793	6,565,938	114,313	65,979
Soybean Meal	100 Tons	121,976	139,639	6,646,265	7,129,618	2,432	1,349
Iowa Corn Yield Insurance	Yield Est. x 100	28	0	1	0	0	0
Dow Jones Industrial Avg.	\$10 x Index	26,616	30,017	4,529,658	6,179,588	46,318	61,800
Dow Jones Industrial Avg. (x\$2)	\$2 x Index	0	1,830	0	187,966	0	2,169
Dow Jones Industrial Avg. (x\$5)	\$5 x Index	0	7,380	0	1,034,474	0	10,555
Dow Jones Transportation Avg.	\$20 x Index	1	2	1	4	0	0
Dow Jones Utility Average	\$10 x Index	1	0	8	0	0	0
U.S. Treasury Bonds	\$100,000 F.V.	482,174	489,062	56,563,798	57,794,850	48,947	52,517
U.S. Treasury Bonds (mini)	\$50,000 F.V.	0	73	0	12,631	0	1
2-Year U.S. Treasury Notes	\$200,000 F.V.	70,460	96,991	2,287,969	2,992,787	27,843	28,303
10-Year U.S. Treasury Notes	\$100,000 F.V.	564,317	731,323	53,132,073	83,992,750	140,371	79,377
10-Year U.S. Treasury Notes (mini)	\$50,000 F.V.	0	7	0	286	0	0
5-Year U.S. Treasury Notes	\$100,000 F.V.	415,735	576,603	27,537,052	46,280,825	74,540	64,609
30-Day Federal Funds	\$5,000,000 F.V.	108,040	207,609	3,586,867	6,095,024	261,771	394,033
Mortgage Futures	\$1,000 x Index	2,338	398	55,364	1,960	974	0
Five-Year Agency Note	\$100,000 F.V.	110	0	1,919	0	160	0
Ten-Year Agency Note	\$100,000 F.V.	52,193	30,423	1,487,772	602,174	32,692	25,931
Municipal Bond Index	\$1,000 x Index	14,665	7,511	377,097	237,939	18,886	12,422
3-Month Eurodollar (mini)	\$500,000 F.V.	0	526	0	1,970	0	573
Interest Rate Swaps 10yr - 3mo	\$100,000 N.P.	0	20,321	0	521,454	0	0
Interest Rate Swaps 5yr - 3mo	\$100,000 N.P.	0	2,596	0	31,509	0	0
CBT X-Funds Index	\$1,000 x Index	0	9	0	769	0	0
Dow Jones AIG Commodity Index	\$100 x Index	0	189	0	14,463	0	0
1000 Troy Ounce Silver	1,000 Tr. Oz.	990	104	11,821	1,138	1,098	276
5000 Troy Ounce Silver	5,000 Tr. Oz.	27	0	227	0	3	0
Silver (mini)	1,000 Tr. Oz.	0	280	0	7,281	0	258
Gold (1 Kilogram)	352 Tr. Oz.	291	52	6,203	446	148	68
Gold (mini)	33.2 Tr. Oz.	0	174	0	6,201	0	151
Total CBT		2,748,290	3,247,945	197,767,936	258,931,884	903,073	887,604

Futures—Contract Market Review/Average Open Interest, 12-Month Volume of Trading and Deliveries/Cash Settlement by Commodity and Exchange for Fiscal Years Ending September 30, 2001 and September 30, 2002

		Average Monthend		Volume of		Total Contracts Settled by Delivery or Cash	
		Open Interest (Contracts)		Trading (Contracts)		Settlement (Contracts)	
Exchange/Commodity	Contract Unit	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
Kansas City Board of Trade (KCBT)							
Wheat	5,000 Bu.	75,987	71,753	2,427,034	2,579,549	29,562	33,080
Stock Index Future, MVL	\$100 x Index	272	270	18,010	17,049	110	3
Internet Stock Index	\$25 x Index	72	7	606	62	127	0
Total KCBT		76,331	72,030	2,445,650	2,596,660	29,799	33,083
Minneapolis Grain Exchange (MGE)							
Hard Amber Durum Wheat	5,000 Bu.	7	7	120	22	18	0
Wheat	5,000 Bu.	23,700	25,460	970,836	1,106,238	9,227	3,455
White Wheat	5,000 Bu.	53	5	452	16	28	0
Cottonseed	120 Tons	86	0	688	0	86	0
MGE National Corn Index	5,000 Bu.	0	50	0	796	0	0
MGE National Soybean Index	5,000 Bu.	0	9	0	78	0	0
Electricity (On Peak)	736 MWh	75	0	0	0	125	0
Total MGE		23,921	25,531	972,096	1,107,150	9,484	3,455
MidAmerica Commodity Exchange (MCE)							
Wheat	1,000 Bu.	1,472	1,854	62,891	72,333	414	86
Corn	1,000 Bu.	4,414	3,277	155,280	96,102	235	326
Oats - Old	1,000 Bu.	93	30	1,841	862	10	5
Lean Hogs	20,000 Lbs.	379	68	10,030	1,468	321	62
Live Cattle	20,000 Lbs.	115	37	7,203	1,370	0	0
Soybeans	1,000 Bu.	5,729	5,545	360,266	264,536	1,527	342
Soybean Oil	30,000 Lbs.	98	39	3,993	332	31	46
Soybean Meal	50 Tons	254	65	7,938	812	159	95
Canadian Dollar	CD 50,000	89	25	8,927	752	0	4
Swiss Franc	SF 62,500	113	36	14,862	694	0	0
Deutsche Mark	DM 62,500	3	0	75	0	7	0
British Pound Sterling	BP 12,500	76	13	7,617	594	3	0
Japanese Yen	Yen 6,250,000	172	0	15,187	0	2	0
Euro	125,000 Euros	31	0	2,434	0	15	0
Australian Dollar	AD 50,000	5	0	473	0	0	0
U.S. Treasury Bonds	\$50,000 F.V.	603	0	69,703	0	0	0
13-Week U.S. Treasury Bills	\$500,000 F.V.	2	0	95	0	0	0
6.5 - 10 Year U.S. Treas. Notes	\$50,000 F.V.	32	0	2,292	0	0	0
5 Year U.S. Treasury Notes	\$50,000 F.V.	0	0	4	0	0	0
3-Month Eurodollars	\$500,000 F.V.	1,368	1,529	8,346	284	276	0
Platinum	25 Tr. Oz.	6	0	196	0	2	0
Silver, New York Delivery	1,000 Tr. Oz.	199	0	4,626	0	74	0
Gold, New York Delivery	332 Tr. Oz.	181	0	4,227	0	32	0
Total MCE		15,434	12,518	748,506	440,139	3,108	966

Futures—Contract Market Review/Average Open Interest, 12-Month Volume of Trading and Deliveries/Cash Settlement by Commodity and Exchange for Fiscal Years Ending September 30, 2001 and September 30, 2002

Exchange/Commodity	Contract Unit	Average Monthend		Volume of		Total Contracts Settled by Delivery or Cash	
		Open Interest (Contracts)		Trading (Contracts)		Settlement (Contracts)	
		2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
Chicago Mercantile Exchange (CME)							
Lean Hogs	40,000 Lbs.	43,546	31,383	1,988,900	1,905,520	25,422	19,628
E-Mini Lean Hogs	10K Lbs. x Index	210	0	9,537	5	1,378	16
Frozen Pork Bellies	40,000 Lbs.	2,613	2,348	191,717	167,637	668	363
Live Cattle	40,000 Lbs.	121,687	97,141	4,229,918	3,985,693	1,608	2,366
Feeder Cattle	50,000 Lbs.	17,235	13,674	562,076	636,614	14,099	9,282
E-Mini Feeder Cattle	10,000 Lbs.	20	0	515	0	81	0
Stocker Cattle	25,000 Lbs.	45	0	174	0	198	0
Butter	40,000 Lbs.	162	647	1,250	4,952	427	1,113
Milk	200,000 Lbs.	12,180	13,768	78,655	93,973	18,218	25,504
Non Fat Dry Milk	44,000 Lbs.	31	12	40	20	0	8
Dry Whey	44,000 Lbs.	0	0	4	0	0	0
Class IV Milk	200,000 Lbs.	1,825	2,195	7,038	6,264	3,422	3,145
Canadian Dollar	CD 100,000	63,619	70,064	2,803,281	3,083,804	67,481	83,822
French Franc	FF 500,000	2	1	26	0	2	1
Swiss Franc	SF 125,000	50,965	43,160	2,792,143	2,869,589	114,141	95,626
Swiss Franc / Yen Cross-Rate	SF 250,000	0	3	0	54	0	0
Deutsche Mark	DM 125,000	374	198	4,737	264	780	194
British Pound Sterling	BP 62,500	35,742	35,053	1,912,879	2,143,152	70,875	55,541
Pound / Swiss Franc Cross-Rate	BP 125,000	0	2	0	110	0	0
Pound / Yen Cross-Rate	BP 125,000	0	18	0	197	0	0
Japanese Yen	Yen 12,500,000	89,689	92,651	4,262,896	4,360,326	133,858	100,722
E-Mini Japanese Yen	Yen 6,250,000	34	63	2,374	2,817	104	9
Euro	125,000 Euros	89,737	110,515	5,345,582	6,991,558	121,265	127,288
E-Mini Euro	62,500 Euros	451	315	20,288	7,533	954	344
Euro / Aussie Dollar Cross-Rate	125,000 Euros	0	16	0	103	0	0
ECU/British Pound Cross-Rate	125,000 Euros	0	23	53	531	0	0
Euro / Japanese Yen Cross-Rate	125,000 Euros	518	896	78,370	64,532	0	0
Euro / Swiss Franc Cross-Rate	125,000 Euros	55	24	108	706	0	0
Euro / Canadian Dollar Cross Rate	125,000 Euros	0	0	0	5	0	0
Euro / Norwegian Krone Cross-Rate	125,000 Euros	0	1	0	1	0	0
Euro / Swedish Krona Cross-Rate	125,000 Euros	0	1	0	3	0	0
South African Rand	Rand 500,000	2,081	2,437	55,925	53,034	6,459	8,739
Australian Dollar	AD 100,000	24,492	29,318	818,722	961,989	48,138	32,647
Aussie Dollar/Canadian Dollar	AD 200,000	0	8	0	16	0	0
Aussie Dollar/ Yen Cross-Rate	AD 200,000	0	3	0	13	0	0
Swedish Krona	SKr 2,000,000	0	1	0	1	0	0
Norwegian Krone	NKr 2,000,000	0	21	0	121	0	0
Russian Ruble	500,000 Rubles	31	0	60	0	30	0
Mexican Peso	MP 500,000	24,996	25,598	1,096,246	1,296,822	49,076	46,922
Brazilian Real	R\$ 100,000	655	40	5,125	44	3,275	0
New Zealand Dollar	NZ \$100,000	895	2,198	20,742	38,764	2,955	4,617

Futures—Contract Market Review/Average Open Interest, 12-Month Volume of Trading and Deliveries/Cash Settlement by Commodity and Exchange for Fiscal Years Ending September 30, 2001 and September 30, 2002

						Total Contracts Settled	
		Average Monthend		Volume of		by Delivery or Cash	
		Open Interest (Contracts)		Trading (Contracts)		Settlement (Contracts)	
Exchange/Commodity	Contract Unit	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
Chicago Mercantile Exchange (CME) continued							
S&P 500 Stock Index	\$250 x Index	491,255	550,632	22,432,130	23,506,640	426,255	316,924
Financial SPCTR	\$125 x Index	0	211	0	1,002	0	0
E-Mini S&P 500 Stock Index	\$50 x Index	87,014	195,901	32,211,582	90,469,533	322,561	681,584
S&P 500 Barra Growth Index	\$250 x Index	779	672	12,071	10,230	1,623	1,649
S&P 500 Barra Value Index	\$250 x Index	1,992	1,701	25,474	20,332	3,208	3,465
S&P 400 Midcap Stock Index	\$500 x Index	16,063	14,824	390,487	387,418	17,601	0
E-mini S&P 400 Stock Index	\$100 x Index	0	2,400	0	166,402	0	0
Fortune E_50 Stock Index	\$20 x Index	175	18	14,970	573	822	162
Long-Short Technology TRAKRS	\$1 x Index x 1000 contracts	0	1,161	0	1,944	0	0
NASDAQ-100 Stock Index	\$100 x Index	50,172	58,598	5,582,219	5,151,441	97,674	140,400
E-mini NASDAQ-100 Stock Index	\$20 x Index	77,758	111,857	27,155,893	48,878,007	341,754	534,595
Russell 2000 Stock Index	\$500 x Index	18,621	25,928	666,450	841,460	20,598	28,354
E-mini Russell 2000 Stock Index	\$100 x Index	0	4,285	0	500,297	0	20,822
Nikkei Stock Average	\$5 x Index	17,712	18,424	474,765	563,427	46,558	55,987
13-Week U.S. Treasury Bills	1,000,000 F.V.	2,179	748	30,074	10,070	7,851	3,485
1-Month Libor Rate	\$3,000,000 F.V.	36,422	39,159	1,243,520	1,126,707	214,759	187,860
3-Month Eurodollar	\$1,000,000 F.V.	4,032,631	4,491,047	162,481,060	208,517,469	1,841,145	2,141,222
Japanese Bonds (10 year)	Yen 50,000,000 F.V.	4	8	0	0	0	13
Swap Rate Futures - 2 Years	\$500,000 F.V.	0	232	0	3,071	0	572
Swap Rate Futures - 5 Years	\$200,000 F.V.	0	1,375	0	8,851	0	2,013
Swap Rate Futures -10 Years	\$500,000 F.V.	0	267	0	6,434	0	538
91-Day Mexican Treasury Bills	MP 2,000,000 F.V.	0	79	0	717	0	0
3-Mo. Euroyen	Yen 100,000,000 F.V.	61,380	35,852	658,336	256,294	86,788	64,143
3-Mo. Euroyen - Libor	Yen 100,000,000 F.V.	5,841	2,863	20,853	2,022	14,313	2,970
Goldman-Sachs Commodity Index	\$250 x Index	21,355	18,955	585,690	525,709	25,432	12,857
Random Length Lumber	80,000 Bd. Ft.	3,579	2,176	226,196	155,060	216	78
Oriented Strand Board Panels (All)	1*	35	1	10,343	1	18	0
Benzene	42,000 Gallons	0	34	0	51	0	50
Mixed Xylene	42,000 Gallons	0	1	0	25	0	0
Cooling Degree Days Weather	\$100 x Index 2*	0	351	0	1,831	0	1,123
Heating Degree Days Weather	\$100 x Index 2*	0	109	1	632	0	148
Total CME		5,508,857	6,153,665	280,511,495	409,790,417	4,154,090	4,818,911

1* Includes OSB panel contracts for North Central, Southeastern, and Western Oriented.

2* Includes Atlanta, Chicago, New York City, Cincinnati, Dallas, Philadelphia, Portland, Tucson, Des Moines, and Las Vegas.

FY 2004 President's Budget
Futures—Contract Market Review/Average Open Interest, 12-Month Volume of Trading and Deliveries/Cash Settlement by Commodity and Exchange for Fiscal Years Ending September 30, 2001 and September 30, 2002

Exchange/Commodity	Contract Unit	Average Monthend		Volume of		Total Contracts Settled by Delivery or Cash	
		Open Interest (Contracts)		Trading (Contracts)		Settlement (Contracts)	
		2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
Merchants Exchange of St. Louis (MESL)							
Illinois Waterway Barge Rate	3,000 Tons	7	3	41	3	6	3
St Louis Harbor Barge Rate	3,000 Tons	6	0	50	0	9	0
MESL Crude Oil, Light Sweet	1,000 Barrels	0	10	0	55	0	0
Total MESL		13	13	91	58	15	3
New York Mercantile Exchange (NYMEX) and Commodity Exchange, Inc. (COMEX)							
No. 2 Heating Oil, New York Harbor	42,000 Gallons	135,545	146,445	9,521,422	9,995,802	21,787	17,380
Natural Gas	10,000 mmBtu	405,142	466,042	15,626,918	24,148,247	35,436	53,094
e-miNY Natural Gas	4,000 mmBtu	0	153	0	45,705	0	3
OTC Social Basis Swap	2,500 mmBtu	0	580	0	792	0	184
OTC Transco Zone 6 Basis Swap	2,500 mmBtu	0	1,387	0	3,800	0	300
OTC Henry Hub Gas Swap	2,500 mmBtu	0	24,378	0	88,479	0	0
Central Appalachian Coal	37,200 mmBtu	266	467	1,365	4,419	10	294
OTC Electricity (PJM)	400 MWh	0	40	0	256	0	40
Electricity (California-Oregon Border)	864 MWh	0	0	17	0	1	0
Electricity (Palo Verde)	432 MWh	51	0	174	0	226	0
Electricity (Cinergy)	736 MWh	25	0	0	0	25	0
Electricity (Entergy)	736MWh	0	0	0	0	4	0
Electricity, Mid Columbia Region	432 MWh	56	0	75	0	25	0
Propane Gas	42,000 Gallons	588	532	11,589	12,957	1,009	537
Crude Oil (Light Sweet)	1,000 Barrels	439,985	466,807	37,815,933	42,352,450	6,004	6,858
Crude Oil (Brent)	1,000 Barrels	5,897	708	40,952	10,069	1,160	1,554
e-miNY Crude Oil, Light Sweet	400 Barrels	0	624	0	114,220	0	0
Unleaded Gasoline, NY Harbor	42,000 Gallons	97,960	113,163	9,221,070	9,896,247	18,561	23,011
Palladium	100 Tr. Oz.	1,566	1,554	27,131	34,472	446	521
Platinum	50 Tr. Oz.	6,982	6,504	217,150	208,408	985	429
Aluminum	44,000 Lbs.	3,044	3,237	48,836	51,110	7,914	10,553
Eurotop 100 Stock Index	\$100 x Index	243	1	1,650	0	694	0
Eurotop 300 Stock Index	\$200 x Index	630	0	7,653	0	908	0
Silver	5,000 Tr. Oz.	71,936	76,398	2,479,191	3,059,055	41,614	27,050
Copper - Grade #1	25,000 Lbs.	78,699	81,660	2,886,000	2,795,812	93,519	129,592
Gold	100 Tr. Oz.	121,701	146,627	6,762,299	8,118,313	33,879	51,422
Total NYMEX		1,370,316	1,537,307	84,669,425	100,940,613	264,207	322,822
New York Board of Trade (NYBT) - New York Cotton Exchange (NYCE), New York Futures Exchange (NYFE) Coffee, Sugar and Cocoa Exchange (CS&CE) and Cantor Exchange (CFFE)							
Cotton No. 2	50,000 Lbs.	66,562	66,148	2,327,953	2,201,163	6,556	2,233
Frozen Concentrated Orange Juice	15,000 Lbs.	25,816	23,028	637,577	560,646	1,639	3,708
Frozen Concentrated Orange Juice-2	15,000 Lbs.	12	0	11	0	15	0
FCOJ1-FCOJ2 Diff	15,000 Lbs.	5	0	23	0	2	0
Milk Index	1,000 Cwt.	44	0	2	0	65	0
Milk Index, Large	2,000 Cwt.	11	0	8	0	1	0

Futures—Contract Market Review/Average Open Interest, 12-Month Volume of Trading and Deliveries/Cash Settlement by Commodity and Exchange for Fiscal Years Ending September 30, 2001 and September 30, 2002

Exchange/Commodity	Contract Unit	Average Monthend		Volume of		Total Contracts Settled by Delivery or Cash	
		Open Interest (Contracts)		Trading (Contracts)		Settlement (Contracts)	
		2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
New York Board of Trade (NYBT) - New York Cotton Exchange (NYCE), New York Futures Exchange (NYFE) Coffee, Sugar and Cocoa Exchange (CS&CE) and Cantor Exchange (CFFE) continued							
Cocoa	10 Tons	115,234	100,888	2,029,518	2,030,714	6,086	6,826
Sugar No. 11	112,000 Lbs.	142,694	176,067	5,191,507	6,078,522	18,703	14,262
Sugar No. 14	112,000 Lbs.	11,225	12,804	119,192	132,405	1,332	3,401
Coffee C	37,500 Lbs.	52,853	64,394	2,166,929	2,547,654	11,700	10,990
Coffee C (mini)	12,500 Lbs.	0	40	0	483	0	44
Canadian Dollar/Japanese Yen	CD 200,000	1,250	1,011	17,944	11,472	3,492	4,144
U.S. Dollar / Canadian Dollar	\$200,000	109	115	1,789	2,080	274	450
U.S. Dollar / Swiss Franc	\$200,000	716	252	14,359	9,819	2,611	1,335
Swiss Franc / Japanese Yen Cross-Rate	SF 200,000	839	594	11,197	12,430	2,149	608
French Franc / Deautche Mark Cross-Rate	DM 500,000	0	0	0	10	0	0
U.S. Dollar / British Pound	BP 125,000	376	594	16,096	27,891	1,062	3,650
Swiss Franc / British Pound Cross-Rate	BP 125,000	1,011	658	20,123	12,017	2,788	2,252
Japanese Yen / British Pound Cross-Rate	BP 125,000	2,316	1,222	46,951	27,042	5,580	3,556
U.S. Dollar / Japanese Yen	\$200,000	979	2,111	19,028	50,336	2,993	5,030
Euro/Australian Dollar	100,000 Euros	1,234	1,240	17,979	13,342	1,216	3,129
Euro/U.S. Dollar	200,000 Euros	2,236	1,556	78,992	80,181	8,934	7,018
Euro/U.S. Dollar- Small	100,000 Euros	75	41	2,607	1,762	126	81
Euro/Yen Cross-Rate	200,000 Euros	8,152	8,535	296,926	329,922	20,624	18,244
Euro / Swedish Krona Cross-Rate	200,000 Euros	2,500	2,207	32,743	37,902	6,202	7,175
Euro / Swiss Franc Cross-Rate	200,000 Euros	2,496	2,582	46,291	49,679	6,740	6,751
Pound/Euro Cross-Rate	200,000 Euros	5,611	5,480	114,238	119,816	13,405	14,928
Euro Canadian Dollar Cross-Rate	200,000 Euros	790	1,454	12,632	11,963	1,888	3,523
Euro Norwegian Krone Cross-Rate	200,000 Euros	273	414	4,759	7,969	781	950
U.S. Dollar /Swedish Krona	\$200,000 F.V.	294	158	3,386	1,696	528	458
U.S. Dollar -Norwegian Krone	\$200,000 F.V.	6	16	45	161	8	45
U.S. Dollar / South African Rand	\$100,000	257	386	4,747	7,773	941	1,280
Australian Dollar	AD 200,000	587	177	6,884	4,709	2,128	1,609
Aussie Dollar/Canadian Dollar	\$200,000 F.V.	1,006	529	15,450	5,991	4,431	1,645
Australian Dollar/Yen Cross-Rate	AD 200,000	1,438	1,232	27,780	24,714	3,120	2,838
Australian Dollar / Kiwi Cross-Rate	AD 200,000	948	645	12,718	8,371	3,068	1,509
New Zealand Dollar	NZ \$200,000	1,121	812	26,850	10,174	4,293	2,615
NYSE Composite Index	3*	1,039	463	45,018	26,731	1,062	911
NYSE CMP Index (Small)	\$50 x Index	72	32	3,386	1,367	419	105
Technology Index	\$500 x Index	46	0	374	0	0	0
Russell 1000 Stock Index Future	4*	6,171	4,832	80,123	59,656	8,351	4,051
Russell 1000 Mini Index Futures	\$50 x Index	455	128	15,002	4,334	418	327
CFFE U.S. Treasury Bonds	\$100,000 F.V.	0	0	0	15	0	0
CFFE U.S. Treasury Bonds (Flex)	\$100,000 F.V.	6,072	0	62,594	0	0	0
CFFE 10- Year U.S. Treasury Notes (Flex)	\$100,000 F.V.	5,096	0	81,670	0	0	0

Futures—Contract Market Review/Average Open Interest, 12-Month Volume of Trading and Deliveries/Cash Settlement by Commodity and Exchange for Fiscal Years Ending September 30, 2001 and September 30, 2002

Exchange/Commodity	Contract Unit	Average Monthend		Volume of		Total Contracts Settled by Delivery or Cash	
		Open Interest (Contracts)		Trading (Contracts)		Settlement (Contracts)	
		2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
New York Board of Trade (NYBT) - New York Cotton Exchange (NYCE), New York Futures Exchange (NYFE) Coffee, Sugar and Cocoa Exchange (CS&CE) and Cantor Exchange (CFFE) continued							
CFFE WI 10-Year U.S. Treasury Notes	Par Amount	60	0	130	0	30	0
5-Year U.S. Treasury Notes-Old	\$250,000 F.V.	0	0	3,900	0	0	0
CFFE 5-Year U.S. Treasury Notes (Flex)	\$100,000 F.V.	3,266	0	66,031	0	0	0
CFFE WI 5-Year U.S. Treasury Notes	Par Amount	0	0	26	0	0	0
U.S. Dollar Index	\$1,000 x Index	7,518	10,763	313,278	378,199	5,637	5,101
CRB Bridge Index	\$500 x Index	1,161	447	20,625	12,892	138	443
S&P Commodity Index	\$100 x Index	0	1,008	0	20,859	0	59
Total NYBT		482,032	495,063	14,017,391	14,924,862	161,536	147,284
3* Includes the large (\$1,000 x Index) and mid-size (\$500 x Index)							
4* Includes the large (\$1,000 x Index) and small Russell 1,000 Index (\$500 x Index)							
Total All Markets		10,225,194	11,564,713	581,132,590	790,072,208	5,525,312	6,224,018

Options—Average Monthend Open Interest and Number of Contracts Traded by Major Groups, All Markets Combined for FY 1996 through FY 2002

Fiscal Year	Total	Grain	Oilseed Products	Livestock Products	Other Agriculturals	Energy/Wood Products	Metals	Financial Instruments	Currencies
Average Monthend Open Interest (In Contracts)									
1996	6,172,544	537,468	290,224	82,274	302,587	588,465	393,719	3,514,795	463,012
1997	6,767,618	490,022	298,053	89,501	342,980	771,012	444,618	3,920,519	410,913
1998	8,072,707	475,752	338,525	85,406	440,680	895,155	520,748	4,982,586	333,855
1999	8,358,199	461,487	390,569	102,251	419,913	1,010,675	593,979	5,175,958	203,367
2000	7,422,500	631,242	280,994	110,338	450,166	1,237,793	578,283	4,007,518	126,166
2001	9,937,856	570,104	270,277	120,792	400,907	1,302,741	353,605	6,731,974	187,456
2002	16,417,834	581,491	262,119	81,573	456,514	2,150,914	291,039	12,368,468	225,716
Number of Contracts Traded									
1996	100,320,446	8,573,628	5,758,271	896,115	3,445,669	7,817,074	3,369,996	62,667,270	7,792,423
1997	105,141,954	6,963,377	6,249,498	960,394	3,837,325	9,575,254	2,757,964	69,337,931	5,460,211
1998	124,107,563	6,251,033	5,663,415	1,000,816	4,937,468	12,132,919	3,178,313	86,884,632	4,058,967
1999	123,140,632	5,915,391	6,587,362	993,194	4,881,153	12,759,032	3,158,455	86,708,838	2,137,207
2000	102,579,828	6,993,655	5,189,730	882,772	5,046,387	14,904,652	3,455,302	64,695,826	1,411,504
2001	141,550,871	6,920,657	4,957,911	1,102,418	3,839,313	14,462,858	2,416,378	106,055,420	1,795,916
2002	213,994,986	7,472,194	5,253,772	826,566	4,177,874	23,108,551	2,510,590	168,512,568	2,132,871

FY 2004 President's Budget
Options—Average Monthend Open Interest and Volume of Trading by Exchange and Contract for Fiscal Years Ending September 30, 2001 and September 30, 2002

Exchange/Commodity	Average Monthend Open Interest (Contracts)		Volume of Trading (Contracts)	
	2000-01	2001-02	2000-01	2001-02
Chicago Board of Trade (CBT)				
Wheat	128,055	96,591	1,687,586	1,598,037
Corn	399,474	423,947	4,864,616	5,248,350
Oats	6,557	10,078	52,265	108,607
Rough Rice	3,048	4,927	19,935	36,937
Soybeans	169,884	168,158	3,771,371	4,105,194
Soybean Oil	57,059	63,058	535,817	678,348
Soybean Meal	41,436	30,903	642,953	469,528
Iowa Corn Yield Insurance	0	0	1	0
Dow Jones Industrial Average	19,400	16,481	293,275	249,403
U.S. Treasury Bonds	407,500	491,895	12,673,653	15,661,850
2-Year U.S. Treasury Notes	1,218	2,865	22,443	49,785
10-Year U.S. Treasury Notes	673,423	1,271,272	16,121,469	29,749,003
5-Year U.S. Treasury Notes	200,822	349,510	4,116,541	7,514,407
Ten-Year Agency Note	4,254	2	39,679	38
Municipal Bond Index	2	0	1,004	0
Catastrophe Insurance (All) 1*	76	0	0	0
1000 Troy Ounce Silver	1	0	8	0
Total CBT	2,112,209	2,929,687	44,842,616	65,469,487

1* Includes large cap and small cap national insurance and Northeastern and California small cap contracts

Kansas City Board of Trade (KCBT)

Wheat	25,632	38,486	260,526	432,354
Stock Index Future, MVL	1	0	4	0
Total KCBT	25,633	38,486	260,530	432,354

Minneapolis Grain Exchange (MGE)

Wheat	6,026	6,999	31,052	46,496
Wheat European	112	0	0	0
Cottonseed	421	0	702	0
MGE National Corn Index	0	4	0	10
Total MGE	6,559	7,003	31,754	46,506

MidAmerica Commodity Exchange (MCE)

Wheat	358	223	926	154
Corn	842	240	3,751	1,259
Soybeans	1,476	0	7,064	702
Soybean Oil	1	0	4	0
U.S. Treasury Bonds	36	0	712	0
Gold, New York Delivery	2	0	3	0
Total MCE	2,715	463	12,460	2,115

Chicago Mercantile Exchange (CME)

Lean Hogs	14,666	10,931	157,509	163,443
Options on CME Lean Hog Index	90	0	0	0
Frozen Pork Bellies	753	588	7,510	5,780

Options—Average Monthend Open Interest and Volume of Trading by Exchange and Contract for Fiscal Years Ending September 30, 2001 and September 30, 2002

Exchange/Commodity	Average Monthend		Volume of Trading (Contracts)	
	Open Interest (Contracts)			
	2000-01	2001-02	2000-01	2001-02
Live Cattle	85,654	56,044	768,208	510,650
Feeder Cattle	19,629	14,010	169,191	146,693
Butter	24	54	38	141
Milk	5,144	6,165	21,193	25,673
Class IV Milk	279	298	1,706	757
Canadian Dollar	23,985	31,263	109,631	135,713
Swiss Franc	14,142	10,926	131,643	91,322
Deutsche Mark	233	0	966	0
British Pound Sterling	14,077	12,991	146,742	127,693
Japanese Yen	81,196	99,944	747,707	866,870
Euro	48,109	65,475	623,002	882,301
Australian Dollar	4,389	3,182	28,327	20,687
Mexican Peso	719	1,840	4,310	7,704
New Zealand Dollar	0	0	0	2
S&P 500 Stock Index	224,633	210,860	4,545,981	4,932,785
E-Mini S&P 500 Stock Index	631	974	22,493	39,963
S&P 400 Midcap Stock Index	116	67	3,539	2,706
NASDAQ-100 Stock Index	6,533	3,826	259,365	70,849
Russell 2000 Stock Index Future	257	147	12,617	5,208
Nikkei Stock Average	246	298	2,953	4,727
1-Month Libor Rate	267	28	2,166	180
3-Month Eurodollar	5,185,646	10,013,948	67,818,410	110,105,315
3-Mo. Euroyen	1,202	213	2,345	431
Goldman-Sachs Commodity Index	95	19	4,109	1,512
Random Length Lumber - 80/110000 BD FT	2,443	1,258	27,441	14,435
Cooling Degree Days Weather *2	0	17	0	32
Heating Degree Days Weather *3	0	35	0	70
Total CME	5,735,158	10,545,401	75,619,102	118,163,642

*2 Cooling Degree Days Weather (Atlanta and Tucson)

*3 Heating Degree Days Weather (Chicago and Cincinnati)

New York Mercantile Exchange (NYMEX) and Commodity Exchange, Inc (INC)

No. 2 Heating Oil, New York Harbor	101,620	63,610	957,349	599,326
Heating Oil Cal Spread Options	0	16	0	17
Natural Gas	531,364	1,146,195	5,148,756	10,927,895
Natural Gas Cal Spread Options	0	637	0	2,111
Crude Oil (Light Sweet)	592,427	880,128	7,284,753	10,769,341
Crude Oil (Brent)	521	102	521	220
Crude Oil Cal Spread Options	0	10,004	0	59,109
Unleaded Gasoline, New York Harbor	68,574	47,362	1,005,461	724,307
Unleaded Gas Cal Spread Options	0	500	0	787
Heating Oil/Crude Oil Option Spread	4,129	609	22,810	5,049
Unleaded Gas /Crude Oil Option Spread	1,663	441	15,767	5,852
Platinum	213	52	2,194	469
Silver	60,208	69,588	464,792	591,768

Options—Average Monthend Open Interest and Volume of Trading by Exchange and Contract for Fiscal Years Ending September 30, 2001 and September 30, 2002

Exchange/Commodity	Average Monthend		Volume of Trading (Contracts)	
	Open Interest (Contracts)		2000-01	2001-02
	2000-01	2001-02	2000-01	2001-02
Copper - Grade #1	5,618	7,239	47,167	40,920
Gold	287,563	214,160	1,902,214	1,877,433
Total NYMEX	1,653,900	2,440,643	16,851,784	25,604,604

New York Board of Trade (NYBT): New York Cotton Exchange (NYCE), New York Futures Exchange (NYFE)
Coffee, Sugar and Cocoa Exchange (CS&CE) and Cantor Exchange (CFFE)

Cotton No. 2	112,563	135,561	1,005,874	1,136,357
Frozen Concentrated Orange Juice	31,653	27,844	206,240	176,618
Milk Index	4	0	0	0
Milk Index, Large	106	0	46	0
Cocoa	38,561	66,985	404,573	629,112
Sugar No. 11	147,970	148,998	1,389,518	1,366,976
Coffee C	64,603	70,605	810,124	842,230
U.S. Dollar / British Pound	40	0	80	0
Japanese Yen / British Pound Cross-Rate	0	12	8	140
U.S. Dollar / Japanese Yen	117	0	857	0
Euro/U.S. Dollar	207	17	964	216
Euro/Yen Cross-Rate	72	57	695	214
Euro / Swiss Franc Cross-Rate	0	1	0	1
Pound/Euro Cross-Rate	170	8	984	8
Stock Index, NYSE CMP New	2,661	3,791	73,807	95,683
Technology Index	29	0	395	0
Russell 1000 Stock Index Future	926	39	17,811	1,284
U.S. Dollar Index	1,841	2,143	19,142	26,720
CRB Bridge Index	159	90	1,507	719
Total NYBT	401,682	456,151	3,932,625	4,276,278
Total Options	9,937,856	16,417,834	141,550,871	213,994,986
Total Futures	10,225,194	11,565,077	581,132,590	790,071,244
Grand Total Futures and Options	20,163,050	27,982,911	722,683,461	1,004,066,230

Table of Acronyms

AAC	Agricultural Advisory Committee
ADR	Alternative Dispute Resolution
ALJ	Administrative Law Judge
AP	Associated Person
ATOM	Agricultural Trade Options Merchant
BCC	BrokerTec Clearing Company, LLC
BOTCC	Board of Trade Clearing Corporation
BTEX	BrokerTec Futures Exchange
CANYCE	Citrus Associates of the New York Cotton Exchange
CBOE	Chicago Board Options Exchange
CBT	Chicago Board of Trade
CEA	Commodity Exchange Act
CFFE	Cantor Financial Futures Exchange
CFTC	Commodity Futures Trading Commission
CFMA	Commodity Futures Modernization Act of 2000
CIPB	Critical Infrastructure Protection Board
CME	Chicago Mercantile Exchange
COMEX	Commodity Exchange, Inc. Division of the New York Mercantile Exchange
COSRA	Council of Securities Regulators of the Americas
CPO	Commodity Pool Operator
CPPS	Committee on Payment and Settlement Systems
CSCE	Coffee Sugar and Cocoa Exchange
CSBS	Conference of State Bank Supervisors
CTA	Commodity Trading Advisor
DCO	Derivatives Clearing Organizations
DOJ	Department of Justice
DTEF	Derivatives Transaction Execution Facility
EAP	Employee Assistance Program
EEOC	Equal Employment Opportunity Commission
EFFs	Exchange of Futures for Futures Transactions
EMC	Executive Management Council
EMP	Enforcement Modernization Project
ERC	Employee Resource Center
EPIC	Entry Processing Inquiry and Correction System
FACTS II	Federal Agencies Centralized Trial-Balance System II
FAIR	Federal Agricultural Improvement & Reform Act of 1996
FATF	Financial Action Task Force
FB	Floor Broker
FBI	Federal Bureau of Investigation
FBIIC	Finance & Banking Information Infrastructure Committee
FCC	Federal Communications Commission
FCM	Futures Commission Merchant
FCOM	FutureCom
FDIC	Federal Deposit Insurance Corporation
FEDLINK	Federal Library and Information Center Network
FERC	Federal Energy Regulatory Commission
FFS	Federal Financial System
FIA	Futures Industry Association

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FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
FOIA	Freedom of Information Act
FOREX	Foreign Currency
FPS	Federal Protective Service
FSF	Financial Stability Forum
FT	Floor Trader
FTC	Federal Trade Commission
FTE	Full-time Equivalent
FY	Fiscal Year
G-7	Group of Seven Industrialized Nations
GAO	General Accounting Office
GCC	Guaranty Clearing Corporation
GISRA	Government Information Security Reform Act
GLBA	Gramm-Leach-Bliley Act
GMAC	Global Markets Advisory Committee
GOALS	Government Online Accounting Link System
GPRA	Government Performance and Results Act
GSA	General Services Administration
IB	Introducing Broker
ICC	Intermarket Clearing Corporation
ICE	Intercontinental Exchange
IDB	Inter-American Development Bank
IFE	Island Futures Exchange
IMAREX	International Maritime Exchange
IOSCO	International Organization of Securities Commissions
IRS	Internal Revenue Service
ISS	Integrated Surveillance System
JO	Judgment Officer
KCBT	Kansas City Board of Trade
LCH	London Clearing House
MASC	Management Accounting Code Structure
MCE	MidAmerica Commodity Exchange
ME	Merchants' Exchange
MGE	Minneapolis Grain Exchange
MRRS	Membership Registration Receivables System
MSPB	Merit Systems Protection Board
MOU	Memorandum/Memoranda of Understanding
NAV	Net Asset Value
NCUA	National Credit Union Administration
NEC	National Economic Council
NFA	National Futures Association
NFC	National Finance Center
NQLX	Nasdaq-LIFFE, LLC Futures Exchange
NYBT	New York Board of Trade
NYCC	New York Clearing Corporation
NYCE	New York Cotton Exchange
NYFE	New York Futures Exchange
NYMEX	New York Mercantile Exchange
OCC	The Options Clearing Corporation

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OCLC	Online Computer Library Center
OCX	OneChicago Futures Exchange
OED	Office of the Executive Director (CFTC)
OFM	Office of Financial Management (CFTC)
OGC	Office of the General Counsel
OHR	Office of Human Resources (CFTC)
OIA	Office of International Affairs (CFTC)
OIG	Office of the Inspector General (CFTC)
OIRM	Office of Information Resources Management (CFTC)
OMB	Office of Management and Budget
OMO	Office of Management Operations (OMO)
ONXBOT	OnExchange Board of Trade
OPM	Office of Personnel Management
OTC	Over-the-Counter (Derivatives)
OTS	Office of Thrift Supervision
PBT	Philadelphia Board of Trade
PWG	President's Working Group on Financial Markets
QPR	Quarterly Performance Review
RFA	Registered Futures Association
RWG	Registration Working Group
SC4	IOSCO Standing Committee on Enforcement & Information Sharing
SEC	Securities and Exchange Commission
SFP	Security Futures Product
SRO	Self-Regulatory Organization
STAR	System for Time and Attendance Reporting
TAC	Technology Advisory Committee
TAS	Treasury Agency Services
USA PATRIOT	Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism
USDA	United States Department of Agriculture
USSFC	U.S. Securities and Futures Corporation
WBOT	Weather Board of Trade
WTO	World Trade Organization

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- The name and IP address of the CFTC server that received and logged the request;
- The date and time the request was received;
- The information that is being accessed (for example, which page or image is being read or downloaded); and
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